TAXPAYER GROUP OFFERS ADVICE TO GOVERNORS 4
HOUSE REPUBLICANS REJECT MEDICARE REFORM BILL 12
DEATH TAX 10-11

Budget&Tax News

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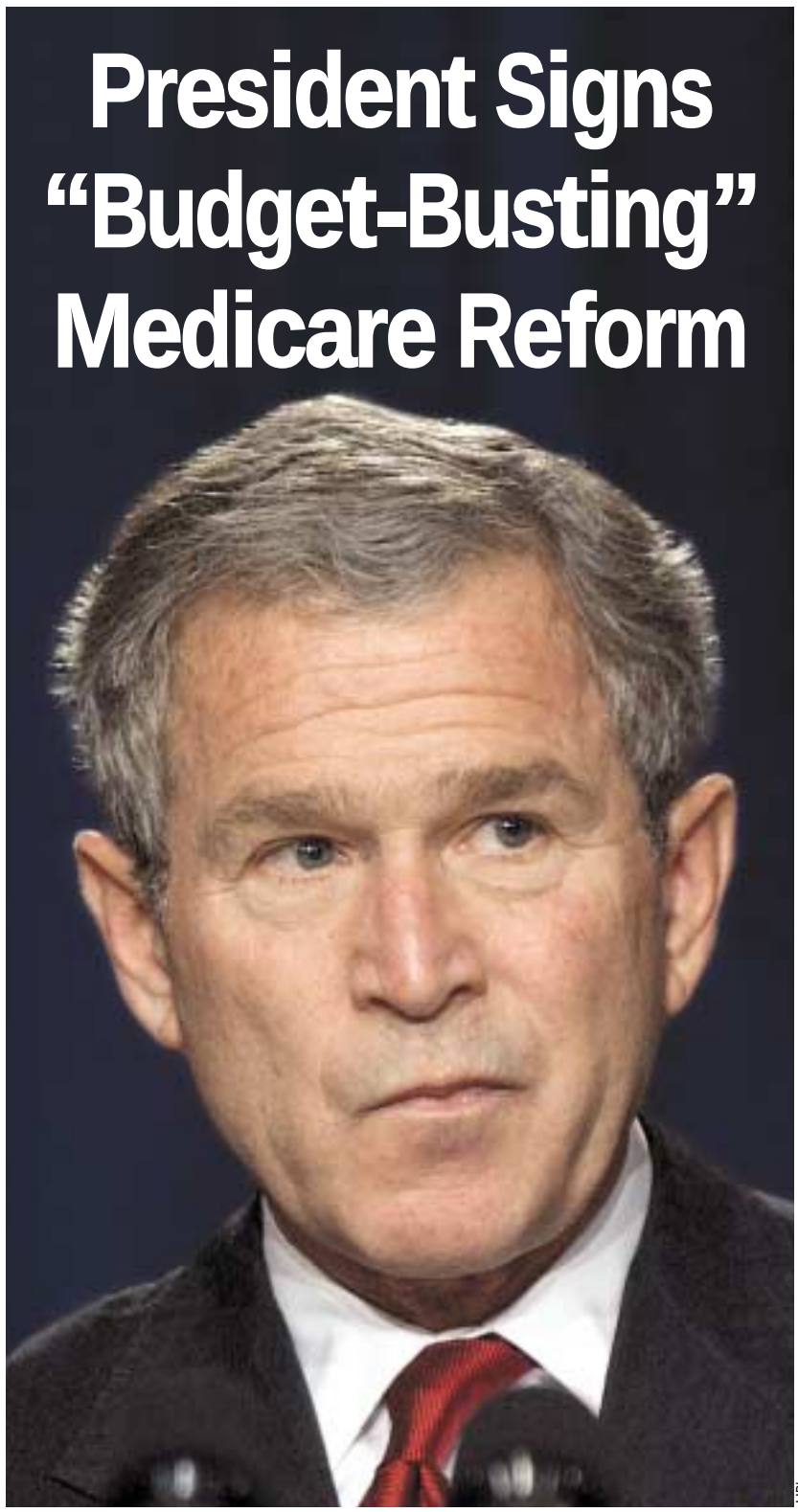
President Signs "Budget-Busting" Medicare Reform



UPI

by John Skorburg

After months of Congressional debate, President George W. Bush on December 8 signed a Medicare reform measure expected to increase spending on the program by $400 billion over the next 10 years. Supporters say it will begin the reform process and give much-needed prescription drug coverage to 40 million older Americans, while critics warn it could increase the power of government and bust the federal budget in 30 years or sooner.

As National Taxpayers Union President John Berthoud observed, "the nation is in a deep Medicare hole. Instead of stopping the digging, Congress and President Bush have just dug the hole a lot deeper. That's why conservative, free market, and

MEDICARE p. 13

SSA Admits Private Plans Will Work

by Jay Lehr

A December 1 memorandum from the Social Security Administration (SSA) to a renowned policy analyst marked the first time SSA has officially admitted private retirement plans will work.

"The chief actuary of the Social Security Administration confirmed the feasibility of every worker's owning a substantial personal retirement account," said Jack Kemp of Empower America.

Long-Term Solvency

The memo from SSA Chief Actuary Steve Gross to Institute for Policy Innovation (IPI) tax expert Peter Ferrara admits that, "Under the plan specifications described [by Ferrara] the Social Security program would be expected to be solvent and to meet its benefit obligations throughout the long range period 2003 through 2077 and beyond." That statement contrasts with SSA figures that place the current Social Security system in bankruptcy within the forecast horizon.

"The SSA's scoring turns traditional Washington-establishment thinking on its head," says Ferrara. "The scoring reveals that large personal accounts would achieve permanent solvency for Social Security, without benefit cuts or tax increases, with manageable transition financing burdens. Up until now, establishment Washington has assumed that any personal account option for Social Security would involve at most 2 percentage points of the 12.4 percent Social

SOCIAL SECURITY p. 15

Judge Orders Billion-Dollar Tax Hike in Kansas

by Karl Peterjohn

In a December 2 ruling sure to haunt the governor and lawmakers in the 2004 legislative session, a Topeka judge declared the Kansas school finance system unconstitutional and gave lawmakers until July 1, 2004 to fix it.

The decision by Shawnee County (Topeka) District Court Judge Terry Bullock came in response to a lawsuit brought by mid-size districts in Kansas, alleging schools are underfunded and that small, mostly white districts get more than their fair share of the money. Bullock announced his decision a week after lawyers for both sides wrapped up their closing arguments in the case, which was originally filed in 1999.

In his order, Bullock said the state was "shortchanging public schools, especially minority and disadvantaged students, by about $1 billion." According to the *Lawrence Journal-World*, Bullock also

KANSAS p. 17

IRS to Audit NEA

by Daniel J. Pilla

According to a November 24 news release from the Landmark Legal Foundation, "the Internal Revenue Service (IRS) has launched an investigation into whether the National Education Association (NEA) has violated federal tax law by spending millions in tax-exempt, members dues on unreported political activities."

Reg Weaver, president of the National Education Association (NEA), acknowledged the probe in a Fox News Channel special, "Breaking Point: Education in America," which aired November 23.

"In September the IRS indicated that they were coming in," Weaver said. "When they come in, we feel confident

NEA p. 18

IN THIS ISSUE

2 Iraq to Get Flat Tax in 2004
4 NGA: State Finances Improve
5 Cal. Recovery Plan on March Ballot
7 Tax Repeal on Oregon Ballot
8 Interest in TELs Growing
14 Few in Congress Seek Budget Cuts

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FOREIGN POLICY

Iraq to Receive Flat Tax in 2004

by John Skorburg

The citizens of Iraq will receive a tax reform gift in 2004, compliments of the U.S. government.

"That's because the Iraqis will enjoy something we don't—a simple and fair tax system," said Daniel J. Mitchell, the McKenna Fellow in political economy at The Heritage Foundation. "Beginning in January, all Iraqis will pay a flat tax of 15 percent."

President George W. Bush's administrator in Baghdad, L. Paul Bremer, recently authorized the flat tax measure, which will replace Saddam Hussein's tax regime, with tax rates as high as 45 percent. The order was signed on September 19 and took effect January 1.

"The highest individual and corporate tax rates for 2004 and subsequent years (in Iraq) shall not exceed 15 percent," says Bremer's order. That could mean either a flat 15 percent tax, or a maximum marginal tax rate in Iraq of 15 percent.

"[Dick Gephardt] would generate a lot of excitement by endorsing a flat tax—something his campaign desperately needs to challenge Howard Dean and give him a better shot at the Democratic Presidential nomination. It has the added virtue of being good policy."

BRUCE BARTLETT

"An Iraqi flat tax is good news for the United States on several counts," said Mitchell. "Perhaps most importantly, it will advance our national security interests by boosting the Iraqi economy. A prosperous and growing Iraq will be less susceptible to radical politics—and less fertile territory for terrorist groups seeking new recruits. And the sooner Iraq is stable and free, the sooner our troops can come home," he noted.

New Life in U.S.?

A November 2 report in the *Washington Post* said Bremer's action was sparking a new drive to revive domestic flat tax proposals.

Economist Bruce Bartlett, a senior fellow with the National Center for Policy Analysis, points out that Iraq is not the only country welcoming flat tax reforms.

"While advocates of the flat tax are ... pleased with the Iraqi initiative," notes Bartlett, "they are actually much more excited by what is going on in many former Soviet bloc countries.

"Estonia established a flat tax in 1994, Latvia in 1995, and Russia in 2001," Bartlett continues. "Earlier this year [2003], Ukraine adopted a flat tax beginning in 2004, and on October 28 Slovakia became the latest country to do so. China is said to be interested as well."

Bartlett believes success in Iraq will put flat tax reform front and center in the upcoming U.S. Presidential elections, even among Democratic candidates. "It is worth remembering that former California Governor Jerry Brown ran on a flat tax in the Democratic Presidential primaries in 1992, giving his campaign a big boost."

Brown's support rose steadily as he campaigned on the flat tax, according to Bartlett's analysis of Gallup Poll data, rising from the low single digits to about 25 percent of the Democratic electorate, second only to Bill Clinton. Brown defeated Clinton in primaries in Colorado, Connecticut, Maine, Nevada, Utah, and Vermont. He was the only candidate able to challenge Clinton all the way to the Democratic convention.

According to Bartlett, "I would suggest that Dick Gephardt is probably best positioned to duplicate Brown's success. He has already staked out a rightward position on Iraq and was a prime mover of tax reform in the 1980s as coauthor of the Bradley-Gephardt tax plan. I think he would generate a lot of excitement by endorsing a flat tax—something his campaign desperately needs to challenge Howard Dean and give him a better shot at the Democratic Presidential nomination. It has the added virtue of being good policy.

"Unfortunately, I don't see Democrats getting their act together next year to regain either the White House or Congress. As a Republican, I am sorry to see that because my party needs them in order to avoid corrupting itself," notes Bartlett.

California Governor Arnold Schwarzenegger is said to be looking at some sort of flat tax there, according to an October 30 report in the *Los Angeles Times*.

Importance of Prosperity

"The Bush administration deserves considerable praise for the Iraqi flat tax," said The Heritage Foundation's Mitchell. "Officials could have left Saddam's bad tax system in place or turned the Iraqi economy over to the United Nations, who probably would have increased tax rates even higher! But the President and his team know that peace and stability in the Middle East are impossible without prosperity."

The next step, said Mitchell, is to "find some country to liberate *us* and replace our terrible tax code with a 15 percent flat tax. Any takers?"

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Flat Tax Benefits for Iraq

The flat tax measure, predicts Daniel J. Mitchell in a November 10 commentary for The Heritage Foundation, will reap the following significant positive results for the Iraqi people:

■ Help restore the Iraqi economy. Decades of heavy-handed government control crippled Iraq's private sector. Saddam and his henchmen treated the country as a personal piggy bank, and the Iraqi people quickly learned to use the underground economy to survive. The flat tax will "legalize" productive behavior and help unleash entrepreneurship and innovation. Businesses will be formed and jobs will be created. To be sure, the flat tax is just part of the solution, but it's an important step on the road to economic recovery.

■ Reduce U.S. foreign aid. An Iraqi flat tax also will save American taxpayers money. Nations that experience strong economic growth generally don't feel the need to come to Washington begging for handouts. This is a critical issue since, for better or for worse, we now bear considerable responsibility for Iraq's future. If its economy is weak, we'll be sending billions of dollars to Baghdad every year for the indefinite future. But the flat tax can help wean Iraq from American aid.

■ Boost economic reform in the Middle East. Creating a democracy in Iraq should stimulate political reform in other Middle East nations. The same principle applies to economic reform. The Iraqi flat tax will provide an example to other nations in the region that want to modernize their economies. It would be especially helpful if Israel and Egypt learned from Iraq, since both nations consume a lot of U.S. foreign aid—money they wouldn't need if they replaced their punitive tax regimes with a flat tax.

"One of the indirect benefits of the Iraqi flat tax is that it will create another case study showing the benefits of a fair, simple, pro-growth tax system."

■ Educate U.S. politicians. If American officials recognize that a flat tax is good for Iraq, this raises an obvious question: Why isn't it also good for the United States? One of the indirect benefits of the Iraqi flat tax is that it will create another case study showing the benefits of a fair, simple, pro-growth tax system. Not that politicians should need more evidence: Hong Kong's flat tax, after all, is a long-time success story, and the flat taxes in Russia, Lithuania, Estonia, and Latvia are helping their economies grow as well.

Daniel J. Mitchell is the McKenna Fellow in political economy at The Heritage Foundation. The full text of his November 10 commentary is available on the Heritage Foundation Web site at **http://www.heritage.org/Press/Commentary/ed111003c.cfm**.

The Flat Tax

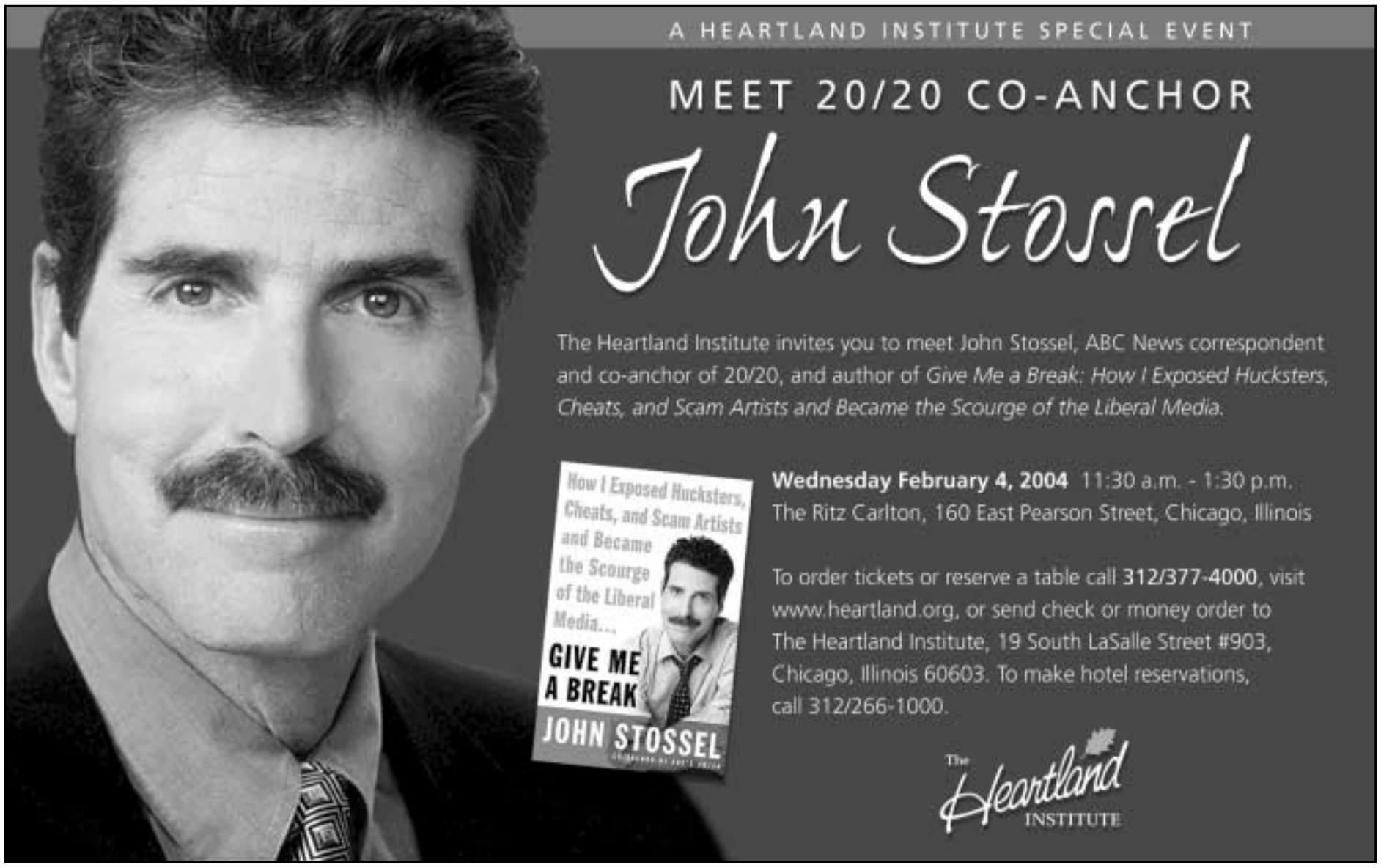
Current plans for a flat tax are usually based on a plan introduced in 1981 by economists Robert E. Hall and Alvin Rabushka of the Hoover Institution at Stanford University. The discussion below is excerpted from their pioneering book, The Flat Tax *(Stanford, California: Hoover Institution Press, second edition 1995).*

Under our flat tax, all income would be taxed once and only once, at a uniform low rate of 19 percent. Our plan is fair to ordinary Americans because it would permit a tax-free allowance of $25,500 for a family of four. The family would pay a tax of 19 percent on its earnings above that allowance. Millions of U.S. residents would no longer pay any income taxes. All wage earners would pay less tax under our flat tax than under the current system.

Our flat tax would eliminate the distortions of the present tax treatment of business. It would replace a hodgepodge of depreciation schedules with an effective investment incentive, a first-year write-off. It would reduce the current corporate tax of 35 percent to 19 percent. It would eliminate double taxation of business income by ending taxation of dividends and capital gains.

Our flat tax adheres to the principle of a consumption tax: People are taxed on what they take out of the economy, not on what they put in.

Our flat tax is not an academic abstraction. We have designed tax forms, rewritten the Internal Revenue Code, and worked out all the practical details. The flat tax has withstood the scrutiny of leading experts on taxation and has been endorsed enthusiastically by many of them. Both the *New York Times* and the *Wall Street Journal* have endorsed our flat tax. Both Republicans and Democrats have introduced it as bills in previous sessions of Congress.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State Fiscal Prospects Looking Up, NGA Says

by Jason White

A year ago, the National Governors Association (NGA) said states were mired in their worst budget crisis since World War II. Now, the NGA says the crisis is easing.

"I do believe states have in fact bottomed-out and the crisis is easing somewhat," said Ray Scheppach, executive director of the NGA, an organization that represents the governors' interests in Washington DC. "I'm optimistic that within a quarter or two we're going to see more moderate revenue growth."

Scheppach delivered his remarks at a December 4 news conference announcing the release of a new report, *The Fiscal Survey of the States*, compiled biannually by the NGA and the National Association of State Budget Officers (NASBO).

"States have done a lot of one-time cuts, they've got under-funded pensions, they've borrowed money from trust funds, they've securitized tobacco (settlements), and they've moved payroll dates around. There's going to be some backfilling on that hole."

RAY SCHEPPACH
NATIONAL GOVERNORS ASSOCIATION

Revenues Rising

The report lands at a time when the national economy is emerging from a nearly three-year slump and many states are reaping the benefits.

Arkansas, for example, reported that revenues grew 8.9 percent, or $26 million, in November 2003 over a year ago. Since July, Arkansas revenues have increased 5 percent over the previous year.

The new NGA-NASBO report reveals a state fiscal landscape pockmarked with problem areas despite the improved outlook for states and the economy.

"States have done a lot of one-time cuts, they've got under-funded pensions, they've borrowed money from trust funds, they've securitized tobacco (settlements), and they've moved payroll dates around. There's going to be some backfilling on that hole," Scheppach said.

Spending Restraint

The overall hole from which states are emerging is a deep one. State general fund spending grew 0.6 percent in fiscal year 2003 and 0.2 percent in fiscal 2004, a marked departure from states' average annual growth rate of 6.2 percent, according to the report.

"This is the smallest nominal general fund increase since 1979. It's unprecedented to have close to three years of nearly flat spending, but that's what we're finding in the survey," said Scott Pattison, NASBO's executive director and a former Virginia budget director.

When the eroding effects of inflation are factored in, state budgets shrank by 1.6 percent in fiscal 2003 and 2 percent in fiscal 2004, the report finds. That has resulted in widespread budget cuts and tax and fee increases in several states.

Eighteen states raised taxes by nearly $6.2 billion for fiscal year 2004, according to another report released in December, *The 2003 Tax and Budget Review*, by the Rockefeller Institute of Government at the State University of New York, Albany.

This is in addition to at least $2.6 billion in fee increases in the states, many times more than states have ever before raised fees.

"This shift toward fee increases appears to result from states shying away from more tax increases, while still needing new revenue to close budget gaps," the Rockefeller report said.

On the spending side, states found savings in a variety of places. Sixteen states laid off employees, 13 used early retirement to pare their workforces, and 13 reorganized programs to find cost savings, according to the NASBO-NGA report.

Looking ahead, NGA's Scheppach said state revenue growth will remain sluggish until states realign their tax systems, many of which were last overhauled in the 1950s.

"The long-run structural problem is still there," Scheppach said. "They still have obsolete tax systems built for a manufacturing economy, and not tax systems that are aligned with a high-technology, service-oriented, deregulated, international economy."

Virginia Governor Mark Warner, a Democrat, recently proposed overhauling his state's tax code, but Scheppach said tax reform efforts are a tough sell.

"The politics around tax reform are so difficult that people tend to shy away," he said.

Jason White is a staff writer for Stateline.org. His email address is **jwhite@stateline.org**.

Taxpayer Group

by Emily Sedgwick

Although California lawmakers would not themselves approve Governor Arnold Schwarzenegger's economic recovery proposal, they have agreed to allow Schwarzenegger to present the plan to the state's voters. On December 12, the state senate approved, and Schwarzenegger signed, legislation placing the recovery measure on the March 2004 ballot.

"As he said he would do, he will go over the heads of the legislature and put a spending limit on the November ballot next year," said Schwarzenegger spokesman Rob Stutzman. According to Americans for Tax Reform, that assertiveness on behalf of taxpayers puts Schwarzenegger in line for top honors as a "#1-ranked governor."

"By taking his stand on November 25, 2003, Governor Arnold Schwarzenegger of California proved by example that governors can resolve their states' spending shortfalls without raising taxes," said ATR President Grover Norquist. Schwarzenegger outlined a three-part plan in Sacramento that day, including efforts to cut spending, issue $15 billion in bonds, and limit future spending to the rate of inflation and population increase.

"The governor of California has provided a useful example of things a governor can do to earn ideal ratings from Americans for Tax Reform," continued Norquist. ATR issues continuously updated rankings of governors based on their taxing and spending activities.

"Governors who earned a ranking of #2 or #3 from us could cut spending now—and then follow up with a useful amendment to curb future spending in meaningful ways, like Schwarzenegger has done, without raising taxes," Norquist said.

Georgia Governor Lauded

Governor Sonny Perdue of Georgia offers another example for governors hoping to boost their ATR ranking. Perdue—an ATR #2-ranked governor who worked to raise taxes during the 2003 legislative session—pledged on December 4, 2003 to oppose all tax increases in the 2004 session.

"We're not raising taxes," Perdue said. "I want you all to know I'm a pretty fair wing shot. Every time a tax clay pigeon is floated, I'll be taking aim at it."

"ATR applauds Governor Perdue for his promise to oppose tax increases this session," commented Norquist. "Making promises like Governor Perdue's—and keeping those promises—is an excellent way to earn a Gold Star award."

The Rankings

ATR ranks governors on a scale of 1 (best) to 3 (worst). Those who have worked to pass budgets without tax increases earn a rank of 1. Signing a budget that includes tax increases earns a governor a rank of 2, and actively working to pass and sign tax increases earns a rank of 3.

Number 1-ranked governors also are considered for Gold Star status, which recognizes their additional, proactive efforts to implement policies that benefit taxpayers, such as cutting taxes and spending.

"We don't exactly wipe the slate clean on January 1, but we continuously revisit the governors' rankings. If a governor executes pro-taxpayer policies, we're likely to revise his or her ranking upwards," Norquist noted.

ATR's 2003 Gold Star governors were
- Bill Owens (R-Colorado)
- Jeb Bush (R-Florida)
- Linda Lingle (R-Hawaii)
- Tim Pawlenty (R-Minnesota)
- Craig Benson (R-New Hampshire)
- Don Carcieri (R-Rhode Island)
- Phil Bredesen (D-Tennessee)
- Rick Perry (R-Texas)

The additional top-ranked governors were
- Frank O'Bannon (D-Indiana), who died in September 2003
- Mike Foster (R-Louisiana)
- John Baldacci (D-Maine)
- Mitt Romney (R-Massachusetts)
- Ronnie Musgrove (D-Mississippi)
- Brad Henry (D-Oklahoma)
- James Douglas (R-Vermont)
- Dave Freudenthal (D-Wyoming)

Several governors are currently ranked #2 by ATR, indicating the group has observed some activity by these governors that works to the detriment of taxpayers. The group's #2-ranked governors are:
- Frank Murkowski (R-Alaska)
- Rod Blagojevich (D-Illinois)
- Bob Ehrlich (R-Maryland)
- Jennifer Granholm (D-Michigan)
- Mike Johanns (R-Nebraska)
- Bill Richardson (D-New Mexico)
- Mike Easley (D-North Carolina)
- John Hoeven (R-North Dakota)
- Gary Locke (D-Washington)
- Bob Wise (D-West Virginia)
- Jim Doyle (D-Wisconsin)

ATR officials say they are "keeping an eye on" those governors and hope their 2004 efforts will warrant promotion.

Don't Follow Their Example

In 2003, the governors earned a rank of #2 or worse by working to delay a scheduled tax cut, imposing fee increases that are "tax increases in disguise," and signing or supporting simultaneous tax cut and tax increase legislation that was not revenue-neutral.

"ATR has long defended taxpayers against lawmakers who would increase their taxes in devious ways," commented Norquist. "Sometimes these policies look good at face value, but the fiscal note is not always so rosy."

Governors in Kansas, Michigan, and New Mexico worked to delay scheduled tax cuts their legislatures had passed in previous sessions and taxpayers expected to see phased in. In Michigan, for example, Democrat Jennifer Granholm was among ATR's #2-ranked governors until she advocated delaying a proposed income tax cut scheduled for January 1, 2004.

"Delaying a scheduled tax cut is a tax increase," commented Norquist. "Even if the legislature rejects the governor's pro-

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Sees Promise in State Governors

posed increase, her rank will fall to #3 until she redeems herself."

In a joint press release issued through their House Taxpayer Protection Caucus, Michigan Representatives Leon Drolet (R-Clinton Township) and Jacob Hoogendyk Jr. (R-Portage) said their caucus and other pro-taxpayer legislators also oppose the delay.

"The government spent its way into this problem and government should cut its way out," said Drolet. "Michigan families didn't create this deficit and they should not be paying the bill for it."

Similarly, in the wee hours of the morning in late April when the Kansas legislature passed its budget, lawmakers worked to delay a scheduled sales tax cut of 0.1 percent. Democrat Governor Kathleen Sebelius denied the delay was a tax increase, and called the action "a responsible choice."

"The responsible thing to do is to keep your promises and cut taxes when you say you will," countered Norquist.

In New Mexico, Democrat Governor Bill Richardson signed a 70 cents-per-pack cigarette tax increase and legislation to stop gas taxes from falling by 1 cent per gallon.

"Governor Richardson made some encouraging noises about cutting personal income taxes and capital gains taxes earlier this year, but the cigarette tax increase and the gas tax cut delay effectively downgraded his ranking," Norquist said.

Passing "user fees" that are really tax increases is another ploy that will earn a governor a lower ranking. Illinois Democrat Governor Rod Blagojevich proposed increasing more than 100 taxes and fees earlier this year. Democrat Governor Bob Wise of West Virginia increased cigarette taxes, calling them a "user fee." Their rankings were downgraded by ATR.

Other actions that typically result in a lower ATR ranking include simultaneous tax cuts and tax increases, where the tax increase is larger overall than the tax cut.

"Tax cuts must be greater than or equal to tax increases, and lawmakers must pass both types of legislation simultaneously. Otherwise, it's a tax increase," Norquist said.

How Governors Can Improve Ranking

"First and foremost, governors can sign the Taxpayer Protection Pledge, and keep that promise to taxpayers that they will oppose and veto any and all efforts to increase taxes," said Norquist.

ATR offers the pledge to all candidates for state and federal elective office, including candidates for governor. An incumbent governor may sign the pledge at any time. Copies of the pledge are available on ATR's Web site, **http://www.atr.org**.

Eight governors have signed the pledge, including two governors currently ranked #2 by ATR.

"Vetoing and opposing efforts to increase taxes, opposing plans like Maine Rx to impose price controls on prescription drugs, signing the pledge, and spearheading efforts to repeal existing tax increases all will help improve a governor's ranking," commented Norquist.

"I particularly appreciate Ohio's Secretary of State Kenneth Blackwell working to repeal Governor [Bob] Taft's $2.9 billion tax increase," Norquist said. "I wish Blackwell were governor; he would earn a rank of #1 and probably a Gold Star.

"Governing is not a free ride, and ATR watches the action of governors vigilantly. That said, we're happy to offer state-specific ways to earn a high rank. All a governor has to do is ask us," concluded Norquist.

Emily Sedgwick is staff writer for Americans for Tax Reform. Her email address is **esedgwick@atr.org**.

ATR's 2003 Gold Star Governors

Bill Owens

Jeb Bush

Craig Benson

Linda Lingle

Tim Pawlenty

Rick Perry

Don Carcieri

Phil Bredesen

Schwarzenegger Recovery Plan on March Ballot

by John Skorburg

On December 12, Governor Arnold Schwarzenegger signed legislation, passed by the state senate earlier that day, putting his economic recovery plan before the people of California in a March 2004 ballot referendum.

"In my swearing-in speech," Schwarzenegger explained in a prepared statement, "I called upon the legislators to put aside 'politics as usual' and deliver a miracle of Sacramento for the people. I am pleased and grateful they were able to do that and pass my California Recovery Plan. Our plan includes a balanced budget requirement to prevent our state from ever facing such a disastrous situation again. I urge the people to join us in putting California on the road to recovery by voting for our plan on the March ballot."

Schwarzenegger's plan must be approved by the state's voters because it includes an amendment to the state constitution.

"The budget agreement that [just] passed the Assembly is an important step in the right direction for California," said Leon E. Panetta, former California Congressman and White House Chief of Staff under President Bill Clinton.

"Make no mistake," Panetta continued, "there are many tough decisions that remain to be made by both the governor and the legislature to restore fiscal discipline to this state. But the first challenge is for both sides to show that they are willing to work together to govern this state rather than engage in politics as usual. This agreement should give all of us in California greater hope that the difficult challenges that remain ahead can be resolved by leadership instead of crisis."

The governor's finance director, Donna Arduin, described the fiscal challenges facing California. "For the past five years, California government has spent $23 billion more than it has taken in. Over the past five years, while revenues have increased by 25 percent, state expenditures have risen by 43 percent. If government had simply spent at the same rate that California's economy has grown, the state's budget would be balanced today."

Recovery Plan

According to Arduin, the recovery plan includes:

- Constitutional spending limit. For 2004-05, expenditures will not be permitted to exceed revenues. For the 2005-06 fiscal year, spending growth over the preceding year will match inflation and population growth. The measure will also establish a Revenue Stabilization Fund, which will receive any general fund revenue that comes in above the spending limit. This 'rainy day' fund could be used—with a two-thirds vote of the legislature—only for repaying deficit bonds, tax rebates, emergencies declared by the governor, and transfers to the general fund when revenues fall below the spending limit in the future.
- General obligation bond issue, which would be used to refinance $15 billion of the $25 billion in debt that has already been incurred.
- Spending reductions. Estimates on the size of the budget shortfall for the current fiscal year range between $2.2 billion and $4.3 billion. The governor is asking the legislature to eliminate nearly $2 billion of the projected shortfall immediately by cutting spending.

Arduin was quoted in early December in the *Wall Street Journal* saying, "We have a list of proposals to start reducing spending now. It includes 38 specific actions that cover a range of program areas, including transportation, resources, health and human services, and education. Together, these total $1.9 billion in budget savings in the current and next [2004] year.

"We have a realistic assessment of the state's fiscal picture," noted Arduin, "and a comprehensive plan to begin to fix fiscal problems that have grown in the past five years. No one is under illusions about how difficult this task will be. But the alternative—failing to take action—is simply not an option."

John Skorburg is managing editor of Budget & Tax News. *His email address is* **skorburg@heartland.org**.

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Massachusetts Ends Ban on Sunday Liquor Sales

Measure adopted as part of economic stimulus package

by Frank Coleman and Lisa Hawkins

With the stroke of a pen on November 26, Governor Mitt Romney brought the Puritan State into the twenty-first century, striking down the state's ban on Sunday alcohol sales, one of the last vestiges of the Prohibition era.

"Here in Massachusetts, the Mother of all Blue Laws—the Sunday sales prohibition—is finally history," said Peter Cressy, president of the Distilled Spirits Council of the United States (DISCUS), the national trade association representing producers and marketers of distilled spirits sold in the United States. "Consumers and retailers will no longer be bound by Blue Laws of a bygone era, while the state will gain new revenue." DISCUS lobbied aggressively in support of the change, as did beer wholesalers.

Under the new law, which goes into effect immediately, package [liquor] stores throughout Massachusetts will be permitted to open on Sunday all year round. Since 1990, those stores have been permitted to open on the Sunday after Thanksgiving through New Year's Day, or year-round if they were located within 10 miles of the New Hampshire and Vermont borders.

"It is clear to me that the extension of Sunday sales will reap untold benefits upon businesses, employees, consumers, and the Commonwealth," said State Rep. Daniel E. Bosley (D-North Adams), House Chairman of the Joint Committee on Government Regulations. "Enactment of this legislation will help us retain untold millions in tax revenue that we are currently losing to our neighboring states both in the form of alcohol sales on Sunday as well as sales incidental to the purchase of alcohol on Sunday."

KRT

Governor Mitt Romney signed a bill ending the state's ban on Sunday alcohol sales.

According to the Beer Institute and National Beer Wholesalers Association, in Massachusetts alone about 24,000 jobs are the direct result of brewing, wholesaling, and retailing beer products.

Many States Liberalizing Liquor Laws

Massachusetts is the sixth state in the past year and a half to approve Sunday sales expansions, as states nationwide reconsider their Prohibition-era liquor laws. Blue Law rollbacks also have occurred in Delaware, New York, Oregon, Pennsylvania, and Rhode Island (during holiday season).

With the 70th anniversary of Prohibition repeal on December 5, states are modernizing these laws to provide consumers more convenience and states more tax revenue. Twenty-seven states now permit the sale of spirits on Sunday.

Earlier in the debate, DISCUS commended the Massachusetts legislature for including Sunday alcohol sales as part of the economic stimulus bill, calling the move "a resounding vote for a more consumer-friendly marketplace in Massachusetts." DISCUS estimates that Sunday sale of spirits will generate "between $1.5 and $2.1 million in new tax revenues for the state."

Recent implementation of Sunday liquor sales in Oregon and Pennsylvania have resulted in an immediate boost to state tax revenues. Pennsylvania's sales are up 10 percent since Sunday sales have gone into effect. Pennsylvania Liquor Control Chairman Jonathan Newman called Sunday sales a "grand slam home run," reporting that Sunday sales have not detracted from sales on other days. In Oregon, a survey by the State Stores Association found that stores open on Sundays have increased weekly revenues between 9.2 and 19.6 percent.

"Enactment of this legislation will help us retain untold millions in tax revenue that we are currently losing to our neighboring states both in the form of alcohol sales on Sunday as well as sales incidental to the purchase of alcohol on Sunday."

STATE REP. DANIEL E. BOSLEY

Frank Coleman is senior vice president, and Lisa Hawkins is vice president for public affairs and communications, with the Distilled Spirits Council of the United States.

Michigan Poll Finds Support for Smaller Government

by John Skorburg

With their state government facing a potential $1 billion deficit, Michigan taxpayers want lawmakers to balance the budget with spending cuts rather than tax increases, according to a recent poll.

In the November 2003 survey of 600 registered voters in Michigan, respondents voted overwhelmingly in favor of less government spending, increased employment, and a strengthened economy. Participants were asked how they recommended the state balance its current budget. Sixty-eight percent advocated cutting spending, while just 17 percent advocated raising taxes.

"Clearly, there is no desire to raise taxes in Michigan at this time," said pollster Steve Mitchell of Mitchell Research & Communications Inc., which conducted the survey.

Lawrence W. Reed, president of the Mackinac Center for Public Policy, believes the seeds for smaller government in Michigan were planted 25 years ago with the passage of a 1978 amendment that put "limits on state and local government" by incorporating them into the Michigan Constitution. Today Reed notes, "Without the restraints on government provided for in the 1978 amendment, Michigan workers and families would be struggling today to make do with less. Both the tax burden and the Lansing bureaucracy would be larger, at the cost of an exodus of people and their businesses from Michigan."

"Jobs and the economy rank as Michigan residents' top concerns," according to State Rep. Marc Shulman (R-West Bloomfield), chair of the House Appropriations Committee. "The results of this survey will guide us through the difficult days to come as we work to balance this budget," Shulman said.

Liz Boyd, spokeswoman for Democratic Gov. Jennifer Granholm, told the *Oakland Press* that Granholm's budget goals "are in line with the survey results."

"The governor favors cuts in spending to balance the budget," Boyd said, "not a tax increase."

On December 18, the Michigan House voted 64-46 to approve a bill, similar to an agreement reached by Granholm and the state senate, to cut projected spending by $379.8 million and cut business taxes, but also to delay a planned reduction in the state income tax.

"The most basic responsibility of a state representative is to advocate on behalf of his or her constituents. Similarly, the task of the Appropriations Committee is first and foremost to make suggestions about state spending based on what best serves the residents of Michigan," said Shulman,. "It is my responsibility to know what the public is saying."

According to the survey, residents believe the most important problem facing the State of Michigan is jobs and the economy (43 percent), followed by budget issues (19 percent), education and schools (10 percent), and health care and prescription drugs (6 percent). Jobs and the economy also ranked first when respondents were asked to identify the most important problem facing their local communities.

"Through this poll, the residents of Michigan have spoken," Shulman said. "We will do our best to listen."

"Will lawmakers listen to Michigan residents?" asked Mitchell. "I don't know. But it's pretty clear there is no support here for a tax hike."

The poll was conducted November 3-11. Poll results are available at Shulman's online office at **http://www.gophouse.com/shulman.htm**.

John Skorburg is managing editor of Budget & Tax News. *His email address is* **skorburg@heartland.org**.

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Tax Repeal Referendum on Oregon Ballot

by John Skorburg

Oregon voters have launched an effort to repeal an income tax surcharge passed by the Oregon Legislative Assembly in mid-2003, scheduled to take effect this spring. The movement appears to have gained momentum in recent weeks, as taxpayer groups succeeded in getting a repeal referendum certified for the February 2004 ballot.

According to Steve Buckstein, president of the Portland-based Cascade Policy Institute, "the referendum has been certified for the ballot by Oregon's Secretary of State, so Oregon voters will vote on it February 3, 2004. The vote was demanded by some 147,000 Oregonians signing petitions to refer the tax package to the ballot.

"In the one hundred year history of Oregon's initiative and referendum system," said Buckstein, "no measure ever collected so many signatures."

In a poll conducted for Portland's KGW-TV, 56 percent of respondents said they would oppose the surcharge if it made it onto the ballot. The statewide telephone survey of 464 adults was conducted November 10-17 and has a margin of error of plus or minus 4.5 percentage points.

If the tax increase is repealed by voters, the *Washington Times* reported, "automatic spending cuts in such areas as education and social services will be triggered to keep the 2003-05 budget balanced."

Jason Merciers, an adjunct scholar to the Cascade Policy Institute, suggested lawmakers begin preparing now for the possibility that voters will reject the tax surcharge. "It would be best to prepare for voters repealing the increase," said Merciers, "rather than waiting until the dust actually settles. An ounce of budget reform leadership is worth more than a pound of chaos."

Tax Hikes Galore

In mid-August 2003, the Oregon House and Senate approved the tax hikes in House Bill 2152, and Governor Ted Kulongoski (D) signed the bill on August 27. The bill includes an income tax surcharge, a new tax on health care providers, a reduction in business tax credits, and an increase in corporate taxes. It also reduces the discount residents get for timely payment of property taxes.

The income tax surcharge is the target of the repeal effort. The legislature approved the tax increases just seven months after voters rejected—on a 55-45 vote—Measure 28, which would have imposed a $725 million tax hike.

The repeal petition signatures were submitted to the Secretary of State by Russ Walker, director of the Oregon chapter of Citizens for a Sound Economy (CSE), the citizen group leading the effort to repeal the tax increase. "We knew people were upset," said Walker. "This had to be the easiest job on the planet, to collect signatures from people who don't want more taxes."

The February vote will be to affirm or deny the action of the legislature. A yes vote on the referendum will support the legislature's tax increase, while a no vote will void the new taxes. If the repeal proponents are successful, Oregon taxpayers will be saved more than $1 billion in taxes, according to CSE.

Former U.S. House Majority Leader Dick Armey, chairman of CSE, was in Portland in late November to rally supporters going into the final stretch of the signature drive.

"The American people do not want their taxes raised. Period," said Dick Armey, former U.S. House Majority Leader.

"This tax increase is not necessary and the citizens of Oregon will send that message to the legislature when they vote it down in February," Armey said.

"This is not new, this should not be a hard concept for legislatures to grasp," he continued. "Voters have been sending this message to state governments across the country from Alabama, to California, and now Oregon."

"The American people do not want their taxes raised. Period," he said.

Added Buckstein, "Voters know there are alternatives to Oregon's tax and spend culture. The question is: how many times do legislators have to be told before they understand?"

John Skorburg is managing editor of Budget & Tax News. *His email address is* **skorburg@heartland.org**.

Kansas Struggles with Streamlined Tax

by Karl Peterjohn

In November 2003, a delegation of eight Kansas legislators attended the Streamlined Sales Tax System's Scottsdale, Arizona meeting seeking help to correct the mess a new "streamlined" sales tax law and its destination sourcing provisions had created in Kansas. Some Kansas legislators are now discussing taking Kansas out of this multi-state compact.

The Kansas delegation was seeking areas of flexibility since the destination sourcing provisions of the streamlined sales tax have created havoc among many Kansas retailers. That havoc is now beginning to affect cities and counties dependent on sales tax revenues.

When Kansas House Speaker Doug Mays (R-Topeka) spoke and sought flexibility on implementing the destination sourcing provision of the streamline law, he received a hostile reception from the sizable audience of state tax agencies. When the Kansas delegation brought up furniture stores that deliver, the opposition was even more hostile. "We became pariahs after we spoke," Mays said.

Another delegation member, Representative Steve Brunk (R-Wichita), a small businessman, went even further and said this law should be repealed. Brunk was one of only 31 legislators voting against this bill on the last day of the regular 2003 Kansas legislative session. Brunk wants the place of origin sales tax restored and complained that the streamlined sales tax "could be the straw that breaks the camel's back" for many retailers.

The 2004 Kansas legislature will be exploring all its options when its session begins in January. There is a tremendous amount of confusion among Kansas retailers that is further hurting a stagnant state economy. Neighboring states like Colorado are beginning to take advantage of Kansas' mistake. Colorado's Governor Bill Owens proudly boasts that the streamlined tax nonsense will never occur there.

Repealing this law is likely to be one of the first items considered by the 2004 Kansas legislature, but there are enough Democrats in the Kansas house to defend a gubernatorial veto. If the new law is not repealed, the Kansas legislature and Governor Sebelius will have sent a clear message that Kansas is hostile to small business in general and retailers in particular.

Karl Peterjohn is executive director of the Kansas Taxpayers Network.

How to Get Rid of Taxes on Productive Effort

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PART 1 OF A THREE-PART SERIES

State Budget Problems Lead to Renewed Interest in TELs

by Lew Uhler and Barry Poulson

Thoughtful leaders in many states are fed up with the fiscal roller coaster they have experienced during the past decade and want to smooth out the ride. The result in many states is new interest in constitutional tax and expenditure limitations (TELs) and efforts to improve limits where they currently exist.

Roller Coaster Ride

States are paying a heavy price for allowing rapid tax revenue growth during the 1990s to fuel an unsustainable expansion in spending. Between fiscal years 1990 and 2001, state tax revenue grew 86 percent. Inflation and population growth grew at a combined rate of 55 percent during that same period.

If states had limited spending growth to the rate of increase in inflation and population, according to analysts from the Cato Institute, state budgets would have been $93 billion smaller by FY01 than they actually were. The savings are roughly twice the size of today's state budget gaps.

If revenue growth higher than the benchmark had been given back to taxpayers in permanent tax cuts and annual rebates, the rebates could have been temporarily suspended during FY02 and FY03 to provide a cushion with which to balance state budgets.

Origins in California

In 1972, Governor Ronald Reagan decided California government was too big, and its swings between feast and famine were too wild and unpredictable. He wanted to reduce the size of state and local governments, putting them on a diet that would control government growth and stabilize their fiscal practices.

The backdrop to Reagan's fiscal initiative was a decade of explosive growth in state government. During the decade of the '60s, when population and inflation increased just over 60 percent, total state spending increased 160 percent, also dwarfing personal income growth of 115 percent. In other words, California government was consuming an ever-larger share of the state economy, threatening the private sector's ability to prosper.

Reagan established the Governor's Tax Reduction Task Force to analyze the problem and come up with some original, surefire answers. The task force presented its work to Reagan in December 1972, having concluded that a constitutional amendment, limiting the growth of taxes and spending year over year, was the answer.

Since this TEL was a case of first impression, the drafters interviewed nearly every financial bureaucrat and fiscal expert in the state to get it right. There were 44 drafts before the proposed amendment was submitted to the legislature and ultimately placed on the state ballot as an initiative at a special election called by the governor in November 1973. The "Revenue Control and Tax Reduction Initiative" was designated Proposition 1.

"If states had limited spending growth to the rate of increase in inflation and population, ... state budgets would have been $93 billion smaller by FY01 than they actually were."

Key Features of TELs

The key elements of Prop. 1 have become the cornerstones of effective TELs—then and now. They are:

■ *Limit on government growth.* Prop. 1 limited state expenditures to the then-percent of state personal income (about 8.5 percent) and required that percentage to be reduced by .1 percent per year until it reached 7 percent, at which time the legislature (by a two-thirds vote) could halt the annual reduction.

Other states followed the personal income percentage formula without the annual reductions, which has been found to be entirely too generous. It is now clear that annual increases in expenditures should be limited to the growth in inflation and population, as in the Colorado TABOR model. That approach avoids another element of the original California design, i.e., the establishment of an economic estimates commission to determine the spending limit for the year based on estimates of personal income growth. By using specifically identified population and inflation indicators, government officials cannot "play" with the formula.

■ *Defining the tax and spending base.* The California limit exempted a variety of spending and revenues, i.e., bond payments, federal funds, gifts to the state, etc. It has been determined since that broadening the base of included expenditure and revenue sources is the best answer.

■ *Super-majority vote on taxes.* Prop. 1 required a two-thirds vote to increase the rate or base of any existing tax or to add a new tax.

■ *Tax surplus fund.* Tax revenues in excess of allowable expenditures were to be transferred to the tax surplus fund and refunded to the people. The measure explicitly required the legislature to minimize surpluses by making periodic refunds and reducing tax rates.

A lot has been learned over the years about the games played with such revenues. It is essential to capture these excess funds and rebate them as soon as possible.

■ *Emergency fund.* A fund equal to .2 percent of state personal income (about 3 percent of the state budget) was set aside for emergencies, which could be determined by the governor alone.

Over the years this provision has morphed to include a declaration by the governor, super-majority vote by the legislature, and explicit limitation on the types of emergencies, i.e., natural disasters, not economic crises, for which the funds may be used. For economic recessions, a Budget Stabilization Fund is now the recommended approach.

■ *Exceeding the limit.* Prop. 1 contained an explicit provision for exceeding the limit based on a vote of the people following a two-thirds vote of the legislature for that purpose. Current models recognize that at any time the people can vote to increase spending/taxes in a measure providing for same and that an existing limit would be adjusted by that amount.

■ *State mandates.* The state was required to reimburse local governments for newly mandated programs or increases in the costs of existing mandated programs. This provision is essential to prevent an expenditure-limited state government from shifting costs to locals to escape the real impact of the state limit.

Experience has demonstrated that state governments are very creative in the ways they circumvent this discipline. It is essential that a state watchdog committee or organization, including taxpayer representatives and members of local government, monitor and enforce this provision.

■ *Local government tax/expenditure limit.* Prop. 1 recognized that state and local governments are part of a total fiscal system. It would not benefit taxpayers to control state expenditures only to have local governments fill in the gap. Prop. 1 set limits on local property tax rates, which could be changed only by a vote of the people. It allowed emergency expenditures over the limit only upon a four-fifths vote of the local governing board. The legislature could adjust property tax levels to meet special circumstances.

■ *Shifts in program responsibilities.* The limits at the state and local levels could be automatically adjusted for shifts of program responsibilities between the state and local units of government and the federal government. This provision has found its way into most current TELs to allow changes in responsibility for welfare, health, and other programs as between various governmental units.

A TEL is not a substitute for, but an addition to, every other fiscal restraint device extant in any state: gubernatorial line-item veto, impoundment or rescission authority, sunset laws, performance-based budgeting, etc. It will work with a part- or full-time legislature, a biennial or single-year budget, any type of state balanced budget requirement, etc. It will work with any type of tax structure, whether progressive or regressive.

Simply stated, a TEL automatically (constitutionally) says to the governor and legislators, "here's the total amount you may spend this year; you decide how to allocate it and how to raise it." That is the essence of a TEL.

Next month: Colorado's Taxpayers Bill of Rights

Lew Uhler, president of the National Tax Limitation Committee, chaired then-Governor Ronald Reagan's Tax Reduction Task Force that developed Proposition 1. Uhler has remained active in the TEL movement nationally. Dr. Barry Poulson is a senior fellow in economic policy with the Independence Institute and professor of economics at the University of Colorado.

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Five Ways to Spend Less on Higher Education

by Lewis M. Andrews

On October 21, 2003, the College Board once again documented the widespread impression that college costs are spiraling wildly out of control. In the decade from 1990 to 2000, tuition at the average four-year private college nearly doubled, going from $10,348 to $19,312. During that same period, state universities imposed an 85 percent tuition increase on their students.

In the current academic year, according to the Board, while the national economy has experienced almost no inflation, tuition at four-year private colleges is up 6 percent over 2002, while tuition at state schools has jumped an astonishing 14 percent in just one year.

While these trends suggest higher spending on higher education is inevitable, many experts say otherwise.

A 1998 report to Congress by the National Commission on the Cost of Higher Education (NCCHE) concludes that a costly and unnecessary degree of specialization has developed in most academic departments, with institutions now supporting disciplines that did not even exist a generation or two ago. Were professors willing to shoulder a bit more of the teaching load, broadening slightly their focus, the number of positions needed to support a well-rounded curriculum would decline significantly with normal attrition; no faculty member would have to be let go or take a pay cut.

According to Martin Kramer, editor-in-chief of *New Directions for Higher Education*, even the modest reform of insuring that courses required for a major be offered on cycles that make completing college in four years more feasible—in other words, ranking students' academic needs above sabbatical convenience—could significantly restrain college costs.

Another reform that promises significant savings is the more efficient use of online resources. Robert Zemsky, director of the Institute for Research on Higher Education at the University of Pennsylvania, has observed that for a one-time collective investment of around $50 million, groups of community colleges, each now spending heavily to provide remedial programs in mathematics, could together save hundreds of millions of dollars "and quality could be continuously improved."

Alan Guskin, president emeritus of Antioch University and co-director of the Project on the Future of Higher Education, believes a more creative approach to the design of libraries—using them as learning centers to provide online course instruction, not just as places to research the occasional class paper—would yield significant cost savings over the long run.

A third efficiency that could reduce the cost of attending a college or university is for schools to allocate educational costs to multi-layered tuitions. For example, courses using videotapes of the best professors from around the country, with an emphasis on independent study and only occasional classes with live teachers, could be priced at one low economy level, while courses involving expensive laboratory facilities or lengthy seminars with an ongoing instructor could be priced at an appropriate premium.

As colleges unbundled their offerings and prices, students in their turn could elect a base rate for courses with high levels of automation or, alternatively, pay a supplement for as much mentoring and personal attention as they wished.

William Massy, director of the Stanford Institute for Higher Education Research, has a fourth suggestion: Professors should adopt quality control methods used in manufacturing and service industries. Just as cars are designed to accommodate the needs and limitations of the purchaser, so classes could be better designed to accommodate the interests and learning abilities of the students.

"[Our] preliminary results show that all 30 [colleges and universities] reduced the costs of course delivery by 40 percent on average, with savings ranging from 20 to 86 percent."

CAROL A. TWIGG

Supported by an $8.8 million grant from the Pew Charitable Trust, Carol A. Twigg at Rensselaer Polytechnic Institute tested the viability of Massy's suggestion by working with professors at 30 institutions of various sizes around the country. She wanted to see if fine-tuning the design of large enrollment courses could simultaneously reduce instructional costs while improving the quality of instruction.

"[Our] preliminary results show that all 30 [colleges and universities] reduced the costs of course delivery by 40 percent on average, with savings ranging from 20 to 86 percent," says Twigg. At the same time, the redesigned courses produced "increased course-completion rates, improved retention, better student attitudes toward the subject matter, and increased student satisfaction."

A final way in which college professors—especially the social scientists—could help reduce the cost of higher education is by using their expertise to identify alternatives to the current wasteful regulation of higher education. In 1998 Stanford University estimated the school incurred approximately $20 million per year (or 7.5 cents for every tuition dollar) in costs related to compliance with a maze of federal and local reporting rules.

Many state universities are further burdened by rigid finance laws, which require comptrollers to "sweep" college and university accounts at the end of each year, returning unspent balances to state treasuries. Such laws encourage schools to do everything but think economically and instead spend all their appropriated money in order to prove, if nothing else, that they are not over-funded.

Dr. Lewis Andrews is executive director of the Yankee Institute, a think tank based in Hartford, Connecticut. His email address is **white-light@att.net**.

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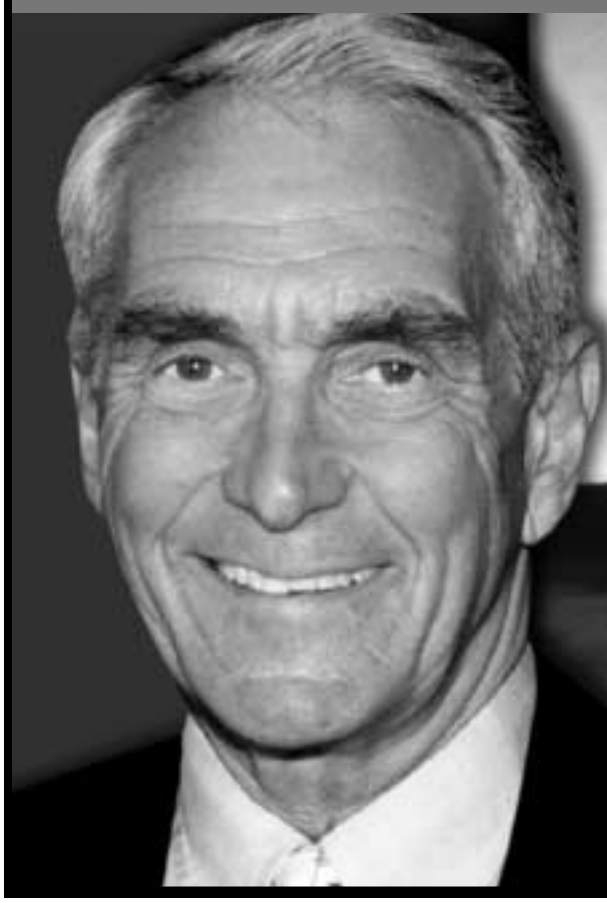

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Farm Group Calls for Permanent Repeal of Death Tax

Three farm horror stories paint bleak picture

by John Skorburg

In a November 6 statement to the U.S. Treasury Department, American Farm Bureau Federation (AFBF) tax specialist Pat Wolff testified her organization "remains committed to full repeal of the federal death tax" because of its potential to prevent the transfer of farms from one generation to the next.

Wolff, participating in a Treasury Department roundtable on jobs, growth, and abolition of the death tax, said "death taxes have long been a concern for farmers and ranchers, and Farm Bureau members consistently list it as the organization's top tax priority.

"While other sectors of the economy have similar concerns, farmers and ranchers are particularly sensitive to the death tax issue for several reasons," Wolff continued. "Most notably, farm and ranch estates face heavier, potentially more disruptive death tax burdens than other estates."

Death taxes fall more heavily on farm and ranch estates because they typically own more property (land) than the average homeowner, and that land is valued more highly than other land. The death tax is potentially more disruptive to farm and ranch families because, since the land is both valuable and productive, those families desire to keep the property in the family and prefer not to sell at the time of the death of a head of household.

"Death taxes fall more heavily on farm and ranch estates because they typically own more property (land) than the average homeowner, and that land is valued more highly than other land."

Wolff said that in the late 1990s, roughly twice as many farm estates paid federal death taxes as did estates in general, given the higher valuation of the farm land. Moreover, the average death tax paid by farm estates was greater than what was paid by most other estates that paid taxes.

Opponents of death tax repeal claim no farm families have been hurt by the current death tax. But three case studies appear on a Web site, **http://www.deathtax.com**, created and maintained by *The Seattle Times*.

California Ranch at Risk

Tim Koopman's family has owned ranch property in California for most of this century. His children would like to continue to run the ranch, but the death tax may prevent this.

Since Tim's mother died four years ago, the Koopmans have paid about $400,000 in death taxes. For three of those years, however, Tim has been able to pay only the interest on the death tax bill, and soon he will not be able to pay that without selling some or all of his land. This is a decision he does not want to face. This land is an important part of his life.

The Koopmans faced the death tax once before. In 1973, Tim was forced to sell one of the family's ranches to pay the $125,000 death tax bill he owed when his father died. Now the family faces the death tax again. Tim wants to pass the ranch on to his children, but the hefty death tax may leave little ranch for him to do so.

Idaho Rancher Faces $3.3 Million Tax Bill

Lee Ann's family owns a ranch in Idaho. They have lived there for three generations, providing jobs for the local economy and helping to create a strong community. The family did not acquire a lot of material wealth, so it came as a great shock when the government hit them with a $3.3 million death tax bill after their father's death.

Although the death of Lee Ann's father was devastating, the death tax bill made it worse. The family had no debts and owned their land outright; they thought they had nothing to tax.

However, their land had increased in value enough to trigger the death tax. Lee Ann's mother, who has been under tremendous strain since her husband's death, is haunted by the realization that after she dies, her family may lose the ranch because of this tax.

Another concern is who will buy the ranch if they are forced to sell. Lee Ann worries that, as is the case with so many other properties, the purchaser will not be another family rancher, but rather a wealthy absentee owner who flies in once or twice a year for a vacation. This has been happening more frequently in Idaho, and the sense of community that Lee Ann enjoyed for most of her life is quickly being lost.

Colorado Family Could Face $200 Million Tax Bill

Robert Sakata is a 42-year-old vegetable farmer from Brighton, Colorado. Back in 1944, his father paid $6,000 for 40 acres of land to begin a family farm. Six years later, he purchased additional land for $700 an acre. Today, the elder Sakata is 73 and owns 2,000 acres of farmland near the Denver International Airport—a piece of land worth nearly $380 million.

This might seem like a wonderful situation for the Sakata family, yet the family owns no other investments; after the elder Sakata and his wife pass away, Robert will face a tax bill of more than $200 million. Robert has admitted he would have to sell off half the farm and lay off many of his 350 workers "who are like family." "We don't live like millionaires," Robert has stated. "We're just trying to sustain a family business."

They will have a difficult time. The death tax will force them to lay off workers and sell land that has been part of the family for more than five decades. This treatment of hardworking successful citizens is hardly the story line for an American dream.

According to Heritage Foundation economist William W. Beach, "The death tax is the nightmare of the American dream."

Changes in the Law Don't Help

The Unified Federal Gift and Estate Tax Credit allows all American citizens to pass a certain amount of their estate to heirs tax-free. While the credit can be used during one's lifetime, it is more commonly used after someone has died and the estate is being distributed.

Under provisions of the Taxpayer Relief Act of 1997 and the Tax Relief Act of 2001, the Unified Credit has been gradually increasing. The credit will increase from $1 million per taxpayer in 2002 and 2003 to $3.5 million in 2009.

In addition, the top estate tax rate will be falling gradually until 2010. The top marginal rate will decline from 50 percent in 2002 to 45 percent in 2009. In 2010, the rate is zeroed out.

But unless Congress acts to make the credit and rate reforms permanent, between 2011 and 2013 the top estate tax rate will revert to its 2002 level of 50 percent, and the Unified Credit will fall again, to the 2002 level of $1 million.

"The reinstatement of death taxes in 2011 would translate into a wider range of medium and large farm estates owing more taxes in 2011 than in 2001 before the latest round of reforms began," Wolff said.

A tax burden of that magnitude would be large enough to disrupt farm and ranch operations, Wolff said, and exacerbate for a growing number of families the problem of transferring farms and ranches from one generation to the next.

"These are the farms and ranches that produce more than 80 percent of all agricultural production in the United States," Wolff said. "When the death tax disrupts these farms, it disrupts a very critical part of the U.S. economy and our future ability to maintain production of food and fiber."

John Skorburg is managing editor of Budget & Tax News. *His email address is* **skorburg@heartland.org**.

Unified Credit and Top Estate Tax Rates

Year	Unified Credit	Top Rate
2002	$1 million	50%
2003	$1 million	49%
2004	$1.5 million	48%
2005	$1.5 million	47%
2006	$2 million	46%
2007	$2 million	45%
2008	$2 million	45%
2009	$3.5 million	45%
2010	Tax Repeal	0%
2011	$1 million	50%
2012	$1 million	50%
2013	$1 million	50%

Estate taxes are due to the IRS only nine months from date of death. In many cases, heirs are forced to sell personal property, real property, and other belongings to pay this tax bill.

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Why Gates' Dad Is Wrong on the Death Tax

Reuters

Bill Gates Sr. (L), father of Microsoft co-founder Bill Gates, and U.S. billionaire George Soros listen to opening remarks at a press conference on preserving the federal estate tax at the National Press Club in Washington, January 13, 2003. Soros and Gates voiced their opposition to President Bush's proposed repeal of the estate tax, saying it would compound the advantages the wealthy enjoy.

by Terry Savage

So Bill Gates Sr. has decided that all Americans should pay estate taxes. He's even written a book, *Why America Should Tax Accumulated Fortunes*. Hey, Mr. Gates: Speak for yourself!

By 2009, the federal estate tax rates will take 45 percent of estates worth over $3.5 million. The Gates family is estimated to be worth nearly $53 billion. Using that tax rate of 45 percent, and some simple rounding, I figure that Bill Jr.'s heirs will still have about $25 billion left even after estate taxes take their bite.

So excuse me, Mr. Gates Sr., if I question your commitment to equality, charity, and all those sentiments you expressed in Chicago recently. Because the rest of us—all of us together—could live quite nicely on the remaining $25 billion Gates fortune after estate taxes.

Now let's take a look at the reality of the estate tax.

The Real Estate Tax

If you die in 2003, you can pass along $1 million to your heirs without paying estate taxes. In 2004 the level rises to $1.5 million. Above that amount, your estate will be taxed at 48 percent.

That exclusion is gradually scheduled to rise until in 2009, when you may pass along $3.5 million—while the remainder is taxed at 45 percent.

If you die in 2010, your heirs hit the jackpot: Under current law, there will be no estate tax that year. And then, in 2011, the law expires, and we are scheduled to go back to the $1 million exemption and high tax rates.

It's that kind of uncertainty about the future that is creating full employment for estate tax attorneys and financial planners. It's distorting investment decisions, and costing huge dollars in insurance premiums for death benefits that would be needed to pay estate taxes. And that's why Congress is debating President Bush's request to make the repeal of the estate tax permanent.

If you think this is just a political attempt to help the President's rich friends, I have news for you: You may very well be one of those rich friends!

"The Gates family is estimated to be worth nearly $53 billion. Using that tax rate of 45 percent, and some simple rounding, I figure that Bill Jr.'s heirs will still have about $25 billion left even after estate taxes take their bite."

You might want to think twice about how the current estate tax would hit your family if you died unexpectedly this year. So start adding it up.

- First, there's the value of your home. Even with a mortgage and home equity loan, the net value could be substantial.
- Then add the value of your retirement accounts. Even after a bear market, it could well add significant assets to your net worth.
- Now think about your life insurance. If it's held in your own name (and not in an irrevocable insurance trust), the payout on your life insurance is part of your estate—even though it goes directly to your spouse or child.
- Then add in a few more dollars for all your other household assets, such as jewelry and cars.
- And then add on the value of your ownership of a business or other real estate.

Suddenly, middle-class America is staring the estate tax in the face.

It's commonly accepted that we try to minimize income taxes by doing things such as taking out big mortgages to deduct the interest. And it's equally common for successful people to try to minimize estate taxes by creating trusts, giving money to charity, and other legal means.

Gates pere worries that charities would suffer if Americans didn't have to contribute money as a tax dodge. Actually, if Americans took those legal and financial fees they pay to estate planners, and instead gave the money to charities, it would be a big win for philanthropy.

But what outrages me most about Gates Senior's position is his rationale that wealthy people have won what he calls "ovarian roulette"—because government research, regulatory stability, and subsidized education allowed these individuals to flourish and grow wealthy.

The Lucky Sperm Club

I'd say Gates Senior has benefitted from the "lucky sperm club"—lucky that his sperm created Bill Gates Jr. so that this 77-year-old former attorney doesn't have to worry about living on Social Security or going to Canada to get cheaper prescription drugs.

The rest of us are going to keep right on working and saving and investing and hoping we have enough money to live comfortably in retirement. And at the end, if we have a bit left over, we're absolutely sure we'd like it to go to our family—and not to Uncle Sam. And that's the Savage Truth.

Terry Savage is a registered investment advisor and is on the board of the Chicago Mercantile Exchange and McDonald's Corp. She appears weekly on Chicago's WMAQ-Channel 5's 4:30 p.m. newscast, and can be reached at her Web site, **http://www.terrysavage.com**.
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House Republicans Make Stand on Medicare

25 supporters of limited government reject reform measure

By Chris Kinnan

When the U.S. House of Representatives passed its version of the Medicare bill on November 22, 25 principled Republicans voted "no."

Despite overwhelming pressure from their party, the liberal media, and the AARP, a handful of House Republicans refused to swallow this bitter medicine. President George W. Bush wanted it badly. House Speaker Dennis Hastert (R-Illinois) wanted it. Senate Majority Leader Bill Frist (R-Tennessee) wanted it, too. The measure ultimately passed the House by a vote of 220-215.

Congressional leaders even named this bill H.R. 1 to emphasize its priority. Trying to attract the senior citizen vote, Congress was determined to create a new drug benefit for Medicare. In November, the Washington establishment lined up to pass a flawed bill that will cost hundreds of billions of dollars and disrupt the existing drug coverage currently enjoyed by most seniors.

Scott Garrett (R-New Jersey) voted against the measure, explaining:

"My 'no' vote was based on a [Medicare] plan that will create additional fiscal burdens, not less, and is both unnecessary and potentially harmful for most seniors who already have prescription drug coverage. Passing the wrong plan won't help anyone. Rather, it will just speed us towards bankrupting the system—leaving every senior now and in the future without coverage. The real result of this Medicare plan is a lower standard of living for our grandchildren. They are the ones who will be stuck with the fiscal burden brought on by this socialized Medicare package."

The Heritage Foundation reports H.R. 1 will cost taxpayers $2 trillion through 2030 alone, with "escalating costs thereafter." Instead of H.R. 1, House leaders should have numbered the bill H.R. 2026, signifying the year that Medicare Part A goes completely bankrupt.

It didn't have to be this way. In late 2002, Bush floated a real Medicare reform proposal, one that created a prescription drug benefit within a competitive, innovative system that gave seniors real choices. If Bush, who faces an extremely competitive election next year, could back such a plan, then surely the politicians serving on Capitol Hill could fall in line. But lacking both courage and imagination, most Congressional Republicans ran for the woods and into the embrace of the AARP.

The majority in Congress has completely lost its direction on spending and size-of-government issues. Discretionary government spending has increased a staggering 27 percent over the past two years.

The Medicare bill will hasten America's fiscal fiasco and backfire politically on those who supported it. Former House Majority Leader Dick Armey, chairman of Citizens for a Sound Economy, elaborated on that point recently, telling the media, "Bad policy is not good politics. This Medicare bill is misguided and will ultimately do more harm than good. Unfortunately, the end result will be that many seniors will have fewer choices and will end up losing their existing drug coverage."

Still, a few Members of Congress stood firm on their limited government principles and voted against the bill. For them, as they faced party leaders and the special interests, it was a truly "Mr. Smith Goes to Washington" situation. Knight-Ridder described one moment, when Florida freshman Rep. Tom Feeney received a phone call from President Bush, who was lobbying for the bill. Feeney listened, then told the President, "I came to Washington not to ratify and expand Great Society programs, but to get rid of programs that don't work and reform the ones that do."

That's great stuff. Similarly, the men and women listed here all made, in political terms, a heroic vote for the sake of a principle. For the idea of fiscal responsibility and limited, prudent government, these Members voted against their party, their leadership, and the special interests rejoicing in trillions of dollars stolen from future generations.

Chris Kinnan is director of public affairs for Citizens for a Sound Economy. His email address is **ckinnan@cse.org**. *For more information about CSE, visit its Web site at* **http://www.cse.org**.

U.S. House Republicans Who Voted Against Medicare Reform

Todd Akin (MO)

J. Gresham Barrett (SC)

Dan Burton (IN)

Steve Chabot (OH)

John Culberson (TX)

Jim DeMint (SC)

Jo Ann Emerson (MO)

Tom Feeney (FL)

Jeff Flake (AZ)

Scott Garrett (NJ)

Gil Gutknecht (MN)

John Hostettler (IN)

Walter Jones (NC)

Jeff Miller (FL)

Jerry Moran (KS)

Marilynn Musgrave (CO)

Charles Norwood (GA)

Ron Paul (TX)

Mike Pence (IN)

Jim Ryun (KS)

John Shadagg (AZ)

Nick Smith (MI)

Tom Tancredo (CO)

Pat Toomey (PA)

Zach Wamp (TN)

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Medicare

Continued from page 1

taxpayer groups were just about unanimous in strongly opposing this legislation."

The Medicare measure provides for a prescription drug program that will be implemented beginning in 2006. Before that, senior citizens will be able to purchase, by mid-2004, a discount card proponents say will provide 10 to 25 percent off prescription drugs.

Starting Somewhere

Grace-Marie Turner, president of the Galen Institute, sees the new Medicare measure as the beginning of reform. "Changes to major programs and systems evolve over time. We must start somewhere. While the compromise agreement falls short of overall modernization, it contains important features to set consumer-friendly initiatives in motion. This is a starting place for reform."

Congressional supporters of the bill, like Senator Dianne Feinstein (D-California), said it was "better than no bill at all" and hailed the vote as a victory for senior citizens. Advocates say the bill will help lead to better coverage for seniors. But the measure's opponents disagree.

"I was struck by how vacant the galleries were and so few seniors citizens looking down," said Senator Tom Dashle (D-South Dakota) after the vote. "What you saw instead were lobbyists packing the halls. They will do well. Our seniors will not, and that is why the fight will go on."

The reform measure's opponents say it wastes taxpayer funds, bloats the federal budget, and effectively moves more responsibility toward the government and away from individuals.

Sen. Barbara Mikulski (D-Maryland) said senators had "squandered the opportunity to truly change history and to truly change the lives of senior citizens" by providing them with "a skimpy benefit."

Escalating Costs

Other observers agreed with Mikulski's opposition to the bill, but hardly considered the measure "skimpy."

Noted Brian Riedl and William Beach of The Heritage Foundation, "The Medicare debate has focused almost exclusively on what form of drug benefit to provide to senior citizens. Lost in the debate is what the huge new unfunded liability implicit in the drug legislation would mean to American taxpayers. There are no free lunches, and future taxpayers will have to pick up the commitment to senior citizens."

Based on research they conducted for Heritage, Riedl and Beach warn, "The 10-year cost estimates performed by the Congressional Budget Office (CBO) do not capture the substantial cost that will likely be felt by taxpayers in 15, 20, and 30 years."

Like the CBO, Riedl and Beach estimate the Medicare reform measure would cost approximately $400 billion over the next 10 years. Yet costs accelerate substantially beyond the 10-year budgeting window, they note. In the following 10 years, from 2014 through 2023, the drug benefit is projected to cost $772 billion. That rapid growth rate continues through 2030.

"Lawmakers who voted for the Medicare drug benefit are voting for a $2 trillion tax increase [over 30 years]," they concluded. "Responsible lawmakers who oppose such substantial tax increases should look beyond the 2004 election and examine the burden that a Medicare drug benefit will impose on future generations."

Shifting Responsibility

Economist Bruce Bartlett of the National Center for Policy Analysis also objected to the Medicare reform bill, but for a different reason: The measure represents yet another transfer of responsibility from the individual to the government.

"As the government takes over all aspects of care for the elderly, their children are relieved of personal responsibility," explained Bartlett. "The Medicare drug bill that has just passed Congress will be a kind of tax cut for those who would otherwise have had to pay for their parents' prescription drugs. Indeed, the Roosevelt administration originally sold Social Security to the young exactly this way." Today, Social Security and Medicare are two of the largest programs in the federal budget.

Two key Senate Democrats—Presidential candidates John Kerry (D-Massachusetts) and Joe Lieberman (D-Connecticut)—did not vote on the reform bill. Lieberman's press secretary, Jano Cabrera, said the senator left for a campaign stop in Arizona after it became "ultimately clear the bill was heading toward passage."

In a written statement, Kerry said he fought "tooth and nail against this special interest giveaway," but returned to the campaign trail once he decided his vote would not make a difference.

The U.S. House of Representatives had passed the bill on November 22, three days before the Senate vote, by a 220-215 margin.

John Skorburg is managing editor of Budget & Tax News. *His email address is* **skorburg@heartland.org**.

What Exactly *Is* Medicare?

by John Berthoud

Medicare was established in 1965 to provide health care insurance to individuals age 65 and over. The program was expanded over the years to include disabled individuals as well. Today, Medicare covers more than 40 million Americans and is the nation's largest health insurance program.

Medicare consists of two parts. Part A, Hospital Insurance (HI), covers hospital, some home health care, services delivered at a skilled nursing facility, and hospice care expenses. HI is financed primarily by payroll taxes.

Medicare Part B, Supplementary Medical Insurance (SMI), covers physician, outpatient hospital, and other certain home health expenses. SMI is financed primarily by transfers of money from the general fund of the U.S. Treasury, and also by the collection of monthly premiums.

John Berthoud is president of the National Taxpayers Union. His email address is **ntu@ntu.org**.

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Congress Shows Little Interest in Budget-Cutting Measures

by John Berthoud

According to the latest BillTally study released in late November by the National Taxpayers Union Foundation (NTUF), just 26 members of the 107th Congress had 2002-2003 legislative agendas that would reduce overall federal spending. By contrast, 32 lawmakers sought to raise the federal budget by more than $1 trillion—the most lopsided margin against budget-cutters in BillTally's 12-year history.

"Taxpayers hoping to see federal spending restraint will be disappointed to learn that the 107th Congress took a long holiday from this task," said NTUF senior policy analyst and study author Demian Brady. "When special interests knocked on Congress's door asking for tax-funded treats, most lawmakers were willing to oblige even when it wasn't Halloween."

"T[here] is indeed a difference between Republicans and Democrats: One party proposes bigger government, while the other party proposes much bigger government."

DEMIAN BRADY
NATIONAL TAXPAYERS UNION FOUNDATION

As Stephen Moore of the Club for Growth recently asked in an article for the *Washington Times*, "Where is the fiscal outrage?" Moore blamed "the recent spending trends of fiscal conservatives" in both parties who at one time could be relied on to keep Congress in check. "This year [2003] was one of the worst years for fiscal conservatives in many moons," wrote Moore. "The federal budget grew by more than $150 billion—more than twice as much as any year that Bill Clinton was in the White House—and deficit spending eclipsed $300 billion, a 10-year high."

And it all took place with the GOP firmly ensconced at both ends of Pennsylvania Avenue. The White House gets some of the blame for allowing Congress to break the bank. "George Bush doesn't really have an anti-Big Government bone in his body," said Moore. "Compassionate conservatism means never having to say no."

"The results of sponsorship records during the 107th Congress show that there is indeed a difference between Republicans and Democrats: One party proposes bigger government, while the other party proposes much bigger government," Brady concluded. "For taxpayers who prefer prudence to profligacy, reversing this trend will remain their top concern."

BillTally is a cost accounting system that computes a net annual agenda for each Member of Congress and has done so since 1991. The results are based on each Member's individual sponsorship and cosponsorship of pending legislation. The study offers a unique look at the fiscal behavior of lawmakers, free from the influence of committees, party leaders, and rules influencing floor votes.

All cost estimates for bills are obtained from third-party sources or calculated from neutral data. Within the 107th Congress, BillTally identified a record-high number of bills as having a fiscal impact of at least $1 million—1,186 measures in the House and 851 in the Senate. Among Brady's findings:

- A record-low 26 Representatives sponsored bills that, if enacted all at once, would reduce federal spending; not a single Senator had a net budget-cutting agenda. As recently as the 104th Congress, a comfortable majority in both chambers could claim to sponsor net spending reductions.
- For the first time ever, BillTally found individual Representatives (32 in all) who would raise federal spending by at least $1 trillion (50 percent of current outlays) annually. The House average was $222.9 billion, while the average Senator would boost the budget by $92.9 billion per year.
- In the House, nearly 24 bills to increase federal spending were introduced for every bill to cut spending. In the Senate the ratio was 36:1, while the combined total for both chambers was 28:1.
- House Democrats called for an average of $417.6 billion in new spending, nearly 13 times more than House Republicans ($32.3 billion). Annualized over 10 years, that level of increase ($4.2 trillion) is more than twice the size of the tax cuts passed in 2001 and 2003 combined ($1.7 trillion).
- Both political parties in the House proposed agendas that were seven times higher than their average 106th Congress totals. In the Senate, the spending sponsorship gap was only somewhat narrower ($150.9 billion for Democrats vs. $34.2 billion for Republicans).

NTUF is the research affiliate of the 350,000-member National Taxpayers Union.

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INTERNET INFO

NTUF's BillTally report, *Policy Paper* 145, "Will to Profligacy or Will to Prudence?" is available online at **http://www.ntu.org**. The study contains a wealth of data on lawmakers' individual and collective spending habits.

"George Bush doesn't really have an anti-Big Government bone in his body. Compassionate conservatism means never having to say no."
STEPHEN MOORE
CLUB FOR GROWTH

GOP Abandons Conservatives

by Hon. Ron Paul

Hon. Ron Paul

The Medicare prescription drug bill passed by Congress in late November may prove to be a watershed event for political conservatives in America.

This latest expansion of the federal government, potentially the largest in our nation's history, is firmly in keeping with the failed New Deal and Great Society programs of the utopian left. This leaves true conservatives, who believe strongly in limited government and identify with the Goldwater-era Republican party, wondering whether they still have a political home in the modern GOP.

The Bush administration, aided by a Republican Congress, has increased spending more in three years than the previous administration did in eight. Federal spending has grown by more than 25 percent since President Bush took office. The federal government now spends roughly $21,000 per household every year, up from $16,000 just four years ago.

Columnists have coined the phrase "Big-Government Republicans" to describe the current crop of free spenders now controlling the White House, Senate, and House of Representatives. Many of the President's closest advisors are Big-Government Republicans, former leftists who have no qualms about spending huge amounts of money both at home and abroad to achieve supposedly conservative ends.

The irony is that conservatives suffered through decades of Democratic control of Congress, always believing that liberals were to blame for the relentless growth of the federal government. When Republicans finally took control of Congress in 1994, many saw an opportunity for a real conservative revolution. But first, conservatives were told, the Democratic administration had to be removed.

In the meantime, spending continued unabated throughout the 1990s. When Republicans won the White House in 2000, another opportunity seemed at hand. The Senate, however, was still in Democratic hands—the last possible GOP scapegoat.

Finally, in 2002 the GOP took control of the Senate and increased its majority in the U.S. House. Surely this was the moment conservatives had been waiting for! Yet the past year has seen more spending than ever, including the disastrous Medicare bill that will cost trillions over coming decades. The latest line is that the GOP needs a filibuster-proof Senate of 60 Republicans, and then, finally, the party can begin to implement a conservative agenda.

When does the conservative base of the GOP, a base that remains firmly committed to the principle of limited government, finally demand new leadership and a return to conservative values? Will conservatives abandon the party when they realize the GOP, at least under its current leadership, is simply not interested in reducing the size and scope of the federal government?

With Republicans controlling the administration and the legislature, and nominally controlling the Supreme Court, the party has run out of other people to blame. Republicans who support bigger entitlement programs and bigger federal budgets have lost all credibility as advocates for limited government.

Ron Paul, M.D., represents the 14th District of Texas in the U.S. House of Representatives. This is a reprint of his December 1, 2003 "Texas Straight Talk" column, edited for length. Paul's columns are available online at **http://www.house.gov/paul/tst/welcome.htm**

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Social Security

Continued from page 1

Security payroll tax."

"As we just learned with Medicare, however, the devil will be in the details of getting such a program through the Congress," warned Kemp. "The devil in this case is a zero-sum mind set among many members of Congress from both parties who believe to their very core that Social Security reform is fundamentally about cutting future benefits for retirees and raising payroll taxes on workers."

According to the SSA Web site, benefit cuts may be needed to keep the current system solvent. "If benefits were reduced to meet the shortfall in revenue for the (Social Security) program, the reduction would need to be 27 percent starting with the exhaustion of the Trust Fund in 2042 and would rise to 35 percent for 2077." SSA Chief Actuary Gross confirmed those figures.

One alternative to benefit cuts would be a tax hike. According to the SSA Web site, "If additional revenue were provided beginning in 2042, revenue equivalent to a payroll tax rate increase of about 0.9 percent [from 12.4 percent under current law to about 13.3 percent] would be needed for the year. The additional revenue needed for 2043 would be equivalent to a payroll tax rate increase of about 4.6 percent for the year. Thereafter, the amount of additional revenue needed would gradually rise, reaching an amount equivalent to an increase in the payroll tax rate of about 6.5 percent for 2077 [or more than 50 percent higher than today's rate]."

A Better Plan

Ferrara offers a third alternative: neither benefit cuts nor tax hikes, but instead a partial privatization of Social Security.

According to the SSA memo, here's how the Ferrara plan would work.

- Starting in 2005, all workers who will reach their 55th birthday on or after January 1, 2005 will have the option to enroll in the personal account plan.
- Enrollees with earnings in Social Security-covered employment will have a portion of their payroll tax contribution redirected from the Trust Fund to an individual account. The progressive scale for contributions redirected from the Trust Fund is estimated to amount to about 6.4 percentage points of the 12.4 percent payroll tax rate on average.
- Benefits withdrawn from the accounts would substitute for a portion of benefits otherwise promised by Social Security.
- The government would provide a safety net guaranteeing each individual no less than the actual amount of money he or she was taxed from his or her earnings by the SSA. That would parallel the Federal Deposit Insurance program, which insures up to $100,000 of an individual's savings in an FDIC bank.
- Disability or survivor benefits guaranteed by the current system would not be changed.

Gross's staff at SSA concluded that the Ferrara plan, assuming conservative returns on individual accounts, would support all benefit obligations by 2055 and eliminate the deficits of the current program. The Social Security Trust Fund would never fall below $1.38 trillion, enough to fund 145 percent of a single year's obligations. That is well in excess of the Social Security standard for solvency, which is based on 100 percent of annual obligations.

"Under the plan specifications described [by Ferrara] the Social Security program would be expected to be solvent and to meet its benefit obligations throughout the long range period 2003 through 2077 and beyond."

STEVE GROSS, CHIEF ACTUARY
SOCIAL SECURITY ADMINISTRATION

Everyone who crunched Ferrara's numbers agreed that by 2055, his plan would allow Social Security payroll taxes to be reduced. If the Ferrara program were launched in 2005, by 2080, the tax rate could fall from 12.4 percent to 9.9 percent. At that point, two-thirds of the tax—6.4 percent—would continue funding personal accounts, while just 3.5 percent would remain under strict government control.

"The modernization of Social Security is not just a good idea—it is a necessity," noted William G. Shipman, co-chairman of the Cato Institute Project on Social Security Choice. "Those seeking political office in 2004 will have to respond to voters' questions about how they would reform Social Security. Fortunately for them, much of the work has already been done."

Real Savings and Investment

In an article for the December 1 issue of the *Wall Street Journal*, Ferrara summarized the simple wisdom of his plan as follows: "All these tremendous benefits of the reform result because it involves shifting from the enormous, purely redistributive, pay-as-you-go program of today to an enormous real savings and investment program that sharply increases national wealth, income, and economic growth."

Martin Feldstein, a former economic advisor to President George H.W. Bush, declared in a recent article in the *American Economic Review* that "a private investment plan even half the size of that proposed by Ferrara would likely increase national wealth in excess of $10 trillion."

"Members of Congress, are you listening?" asked Kemp.

Jay H. Lehr is a senior fellow with The Heartland Institute. His email address is **e3@e3power.com**.

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Taxpayer Group Blasts Effort to Kill Internet Tax Moratorium

by Jonathan Collegio

The U.S. Senate adjourned for the year without voting on S. 150, the Internet Tax Non-Discrimination Act. Noting Internet taxes impose an "immense burden" on the economy, Americans for Tax Reform (ATR) strongly opposed the efforts of two Senators to kill S. 150 and allow states to tax the Internet.

"Now that Senators Lamar Alexander and George Voinovich have succeeded in killing the moratorium on Internet taxes, clearly the Senators are more concerned about protecting tax collectors instead of taxpayers," said Grover Norquist, president of ATR. "Their actions are preventing the permanent elimination of taxes on Internet access, double-taxation of a product or service bought over the Internet, and discriminatory taxes that treat Internet purchases differently from other types of purchases."

According to the *Toledo Blade*, "George Voinovich (R-Ohio) urged Congress to pass a compromise that would extend the moratorium on Internet taxes without further devastating the already cash-strapped budgets of states and localities." Under the Voinovich proposal, the five-year-old moratorium on Internet taxes, which expired November 1, would be extended for another two years—and not banned permanently. The compromise stalled, as did the original bill.

The compromise was a direct effort to block legislation, recently passed by the U.S. House of Representatives, that would permanently ban states and localities from imposing Internet taxes. Supporters of the permanent ban, sponsored by Sen. George Allen (R-Virginia) and Rep. Christopher Cox (R-California), say it is necessary to keep "Internet access affordable for all Americans."

"[Certain] Senators have decided to allow states to implement Internet taxes that are complicated, unfair, and an immense burden on the economy and harm future growth and innovation."

GROVER NORQUIST, PRESIDENT AMERICANS FOR TAX REFORM

Voinovich, who coauthored the original Internet tax moratorium, may agree that Internet access should not be taxed. But he contends the Allen-Cox legislation contains a too-broad definition of Internet access that would prevent states from taxing types of telecommunications services that currently can be taxed, including "bundled" telephone taxes and fees.

"We are not here to tax e-mail," Voinovich said at a recent press conference. "We strongly believe this fair and reasonable compromise expands the original moratorium to help level the playing field for all Internet service providers without causing severe budget shortages in state and local governments."

But Allen said in a statement that extending the moratorium temporarily, as the compromise measure would do, "is just another excuse to provide the opportunity for states to begin taxing Internet access." Such taxes could raise the cost of a high-speed Internet connection by $10 to $15 a month, he said.

"Such a proposal would ... further exacerbate the digital divide," Allen added.

In 1998, and more recently in 2001, Congress acted to put an end to taxes that single out the Internet. The tax moratorium expired on November 1 and, because the Senate adjourned without passing replacement legislation, Americans now face the prospect of paying taxes on everything from email to instant messages and filters for spam or junk email. Especially hurt by such taxes would be schools, libraries, hospitals, and families who use the Internet for research, education, and communication.

"By ensuring that the Internet remains tax-free, individuals and small businesses that could not afford access to the Internet have begun to share in the wealth of opportunities that the World Wide Web has offered," said Norquist. "However, certain Senators have decided to allow states to implement Internet taxes that are complicated, unfair, and an immense burden on the economy and harm future growth and innovation.

"Supporters of the permanent moratorium have worked tirelessly to address the concerns expressed by the Senators. However, these individuals have used these negotiations to stall passage of a permanent ban on Internet access taxes in order to achieve their true desire and tax the Internet," Norquist said.

Jonathan Collegio is director of communications for Americans for Tax Reform. His email address is **jcollegio@atr.org**.

Senate Passes Bill to Capture Illegal Cigarette Sales

by John Skorburg

The U.S. Senate passed on December 9 a bill (S. 1177) intended to curtail illegal cigarette trafficking and strengthen enforcement of cigarette tax collection from Internet vendors. The measure passed late in the evening by voice vote.

Senator Orrin G. Hatch (R-Utah), chairman of the Senate Judiciary Committee, and Senator Herb Kohl (D-Wisconsin) introduced the Prevent All Cigarette Trafficking (PACT) Act on June 3, 2003.

"Contraband cigarettes contribute heavily to the profits of organized crime syndicates, specifically global terrorist organizations," stated Hatch at the bill introduction. "Furthermore, illegal cigarette trafficking has had a damaging impact on the economies of numerous states."

"It is clear that cigarette trafficking is becoming a method of terrorist financing," added Kohl. "This legislation will comprehensively combat tobacco smuggling. In reducing cigarette smuggling, we will simultaneously help deny terrorists a needed source of funding and help our financially struggling states collect their revenue."

The PACT Act would:

- Strengthen the reporting requirements for interstate cigarette sellers.
- Lower the threshold for cigarettes to be treated as contraband from 60,000 to 10,000.
- Make violating reporting requirements a felony.
- Create a substantial civil penalty for violating reporting requirements.
- Empower state attorneys general to prosecute violators.

The bill "is designed so that the profits of those currently benefitting from contraband cigarettes will go up in smoke," Hatch said when the measure passed.

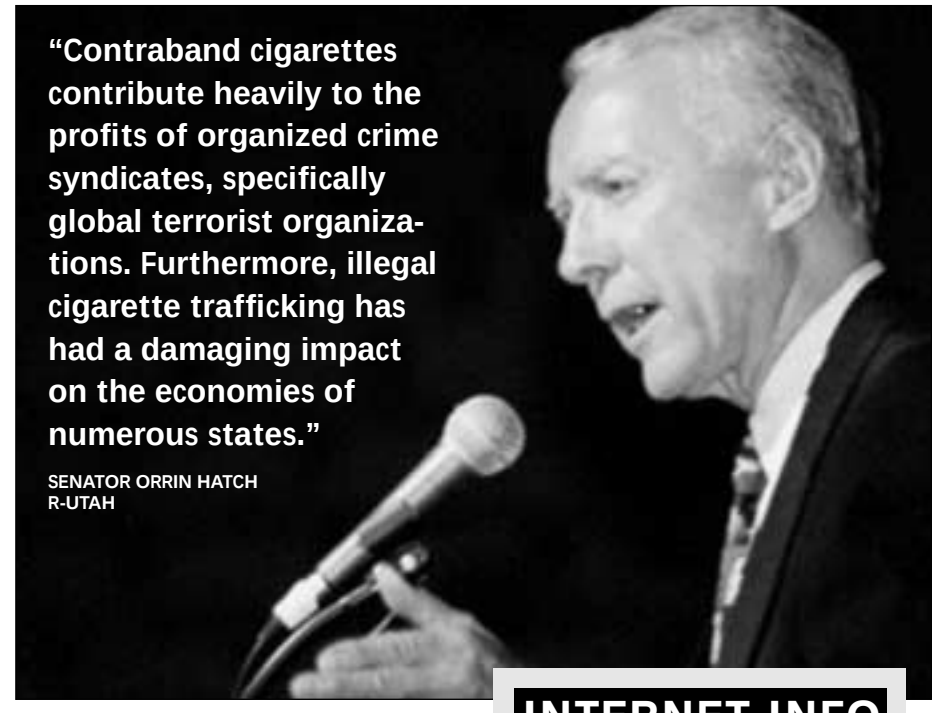
The legislation also gives state attorneys general the ability to bring action in federal court against Internet vendors who violate state laws by failing to report sales to state tax administrators.

"The PACT Act will give states the authority to collect millions of dollars in lost state tax revenue resulting from online and other remote sales of cigarettes and smokeless tobacco," said Vermont Senator Patrick Leahy, ranking member of the Senate Judiciary Committee, during a July 31 hearing. "It also ensures that every tobacco retailer, whether a brick-and-mortar or remote retailer of tobacco products, plays by the same rules by equalizing the tax burdens."

In the House, Reps. Martin Meehan (D-Massachusetts) and Mark Green (R-Wisconsin) have sponsored similar legislation.

Philip Morris USA, the largest cigarette company in the United States with nearly 50 percent of U.S. retail sales, supports legislation "aimed at stopping the illegal sale of cigarettes," including stolen, illegally imported, counterfeit, and untaxed or under-taxed cigarettes that enter into or are diverted from the legal distribution chain through illegal means. According to the company's Web site, "Illegal trade deprives governments of tax revenue and can result in stolen products, hijacked cigarette trucks, tarnished trademarks and brand reputations, and distortions in the legitimate market.

"As excise taxes and other costs increase," the Web site statement continues, "many smokers are seeking lower-priced cigarettes through a variety of alternative venues and channels, many of which are illegal, creating a need for increased enforcement and more stringent penalties. Philip Morris USA is working to support legislation that can provide law enforcement authorities with additional tools to combat illegal trade in cigarettes."


"Contraband cigarettes contribute heavily to the profits of organized crime syndicates, specifically global terrorist organizations. Furthermore, illegal cigarette trafficking has had a damaging impact on the economies of numerous states."
SENATOR ORRIN HATCH
R-UTAH

INTERNET INFO

The full text of S.1177, The PACT Act, is available through *PolicyBot*. Point your Web browser to **http://www.heartland.org**, click on the *PolicyBot* icon, and search for document **#14098**.

The Philip Morris position statement on illegal trade in tobacco products is available online at **http://www.philipmorrisusa.com/policies_practices/legislation_regulation/illegal_trade.asp**.

John Skorburg is managing editor of Budget & Tax News. *His email address is* **skorburg@heartland.org**.

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Even before Judge Terry Bullock's ruling (right), Kansas Governor Kathleen Sebelius (above) had been floating sales tax hike proposals of varying sizes around the capitol informally with legislators.

Kansas

Continued from page 1

said the "unequal disbursement of education funds in Kansas was a blatant violation of state and federal constitutional provisions."

George Petersen, taxpayer advocate for the Kansas Taxpayers Network, called Bullock's ruling "judicial nonsense."

"Bullock basically overruled himself," Petersen said, "since he dismissed a similar lawsuit in his court in 1992. This decision means Kansas will follow in the footsteps of Nevada, which in 2003 also faced a judge trying to usurp legislative and executive authority."

Tax Hike on the Horizon

House Speaker Doug Mays, a Topeka Republican, said complying with the judge's order would mean a tax increase so big it "would be a crushing blow to the economy of this state and would send us into a death spiral."

Mays told the *Journal-World* that, despite the judge's order, there would be no such tax increase, because all legislative seats would be up for election in 2004.

"I know that is distasteful to some, but that's reality," Mays said. "The votes are not there for a tax increase."

In addition, Mays said, the legislature cannot be ram-rodded by a judge on school finance, a subject he described as complex. "We need to take our time and do what's right for the children of Kansas," he said.

The state already spends $2.6 billion, about 52 percent of its total annual budget, to educate nearly 445,000 students. Total state, local, and federal funding for the state's K-12 government schools is now approaching $4 billion.

A $1 billion increase would require a tax increase equivalent to a 3 cents increase in the state sales tax, a 250 percent hike in the statewide property tax, a 50 percent hike in income taxes, or significant budget cuts. For a family of four, the tax hike would reach nearly $1,500.

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Senate President Dave Kerr (R-Hutchinson) said such a funding boost "would give taxpayers enormous heartburn if it were the subject of a tax increase, and it would devastate the state budget if we were to take it from the other 48 percent that wasn't going to education. It would wipe out higher education and many other parts of the state budget entirely."

Sign of Things to Come

Kerr also said the order wasn't realistic. "This judge is not the final authority on this or any other issue."

Because Bullock's decision was a "preliminary order," it wasn't clear whether the state could appeal immediately, or would have to wait until a final order is issued. Governor Kathleen Sebelius said she would propose a school finance measure in January, regardless of the status of Bullock's ruling.

"The governor is committed to ensuring that all Kansas children have the best possible educational opportunities," Sebelius spokeswoman Nicole Corcoran said. Even before Bullock's ruling, Sebelius had been floating sales tax hike proposals of varying sizes around the capitol informally with legislators.

In late 1991, Bullock issued a similar ruling, and the legislature responded by passing the largest tax hike in state history, raising personal and corporate income taxes as well as the state's sales tax rate. At that time, Kansas had a Democratic governor, a narrowly Democratic House of Representatives, and a narrowly Republican Senate.

In 1992 there was a major swing of seats from Democratic to Republican in both houses that continued with the 1994 election. In 1994 Kansas elected a GOP governor who campaigned as a fiscal conservative.

Karl Peterjohn is executive director of the Kansas Taxpayers Network. His email address is **info@kansastaxpayers.com**.

Key Dates in Kansas School Finance History

November 8, 1966
Voters approve a constitutional amendment establishing a 10-member State Board of Education having "general supervision" over public schools, with the legislature required to "make suitable provision for finance of the educational interests of the state."

September 10, 1990
Officials with 31 school districts file a lawsuit challenging the legality of the state's school finance formula, saying they receive less than a proportionate share of the funding for elementary and secondary education.

October 14, 1991
Shawnee County District Court Judge Terry Bullock issues a pretrial opinion finding the state's school finance formula unconstitutional.

May 5, 1992
Legislators approve a new school finance formula, providing money on a per-pupil basis.

December 2, 1994
The Kansas Supreme Court upholds the constitutionality of the school finance formula.

May 21, 1999
Administrators and parents of students in the Salina and Dodge City school districts file state and federal lawsuits, claiming the finance formula is unconstitutional and violates the equal protection rights of minority and poor students.

November 21, 2001
Bullock dismisses the lawsuit.

January 24, 2003
The Kansas Supreme Court reverses Bullock's decision to dismiss the case, ordering a trial in Shawnee County District Court.

September 22-October 1, and November 25, 2003
Bullock hears testimony and closing arguments in the school finance lawsuit.

December 2, 2003
Bullock issues preliminary order saying the state school finance formula is unconstitutional, and he tells the legislature and executive branch to fix the flaws.

January 12, 2004
Start of 2004 legislative session.

July 1, 2004
Deadline imposed by Judge Bullock for fixing the school finance formula, and the start of the state's 2005 fiscal year.

Source: Dodge City Daily Globe Online

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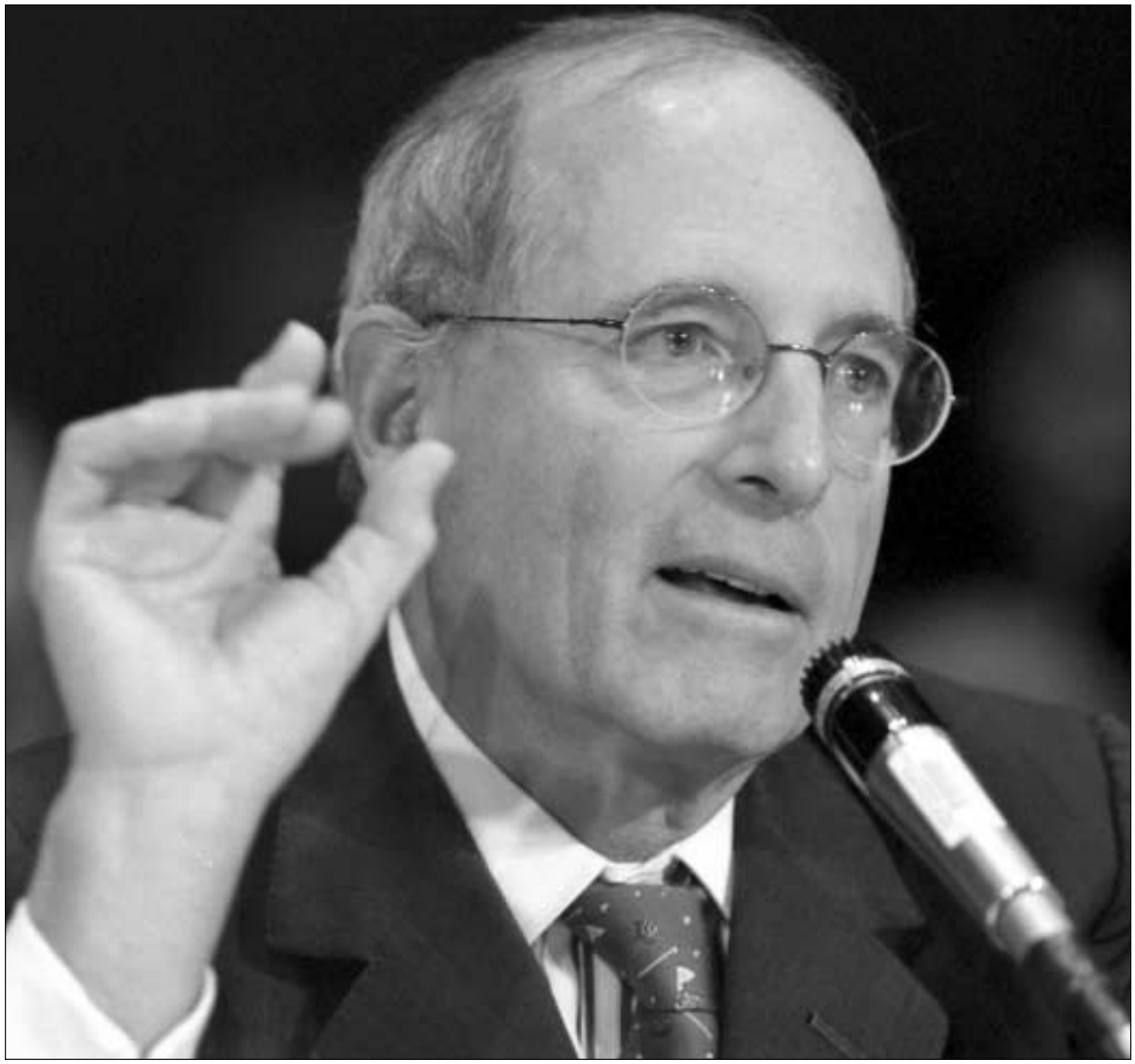

Zuma Press

When former Commissioner Charles Rossotti left office a year ago, he advised Congress that in order for the IRS to return to pre-1998 enforcement levels, the agency would require annual budget increases of about 2 percent per year for the next five years.

NEA

Continued from page 1

that they will go out the same way they did in 1999 and that is having the NEA have a clean bill of health."

Unreported Political Expenditures

According to Landmark, the investigation into the union's political expenditures was initiated by its filing of complaints with the IRS, starting in 2000, documenting tens of millions of dollars in political expenditures that have not been reported on the union's tax returns over the last several years.

"I think Mr. Weaver's confidence in the NEA getting a clean bill of health may be a case of whistling through a graveyard," explained Landmark President Mark R. Levin. "We provided the IRS with a chapter and verse road map into the union's political expenditures. It appears that the NEA may finally be called to account for its failure to tell the government—and its members—how much it is spending on politics."

The NEA regularly claims it spends nothing from its general revenues on political activities, according to Landmark documents. Yet the NEA spends more than $75 million each year on political activities, money many experts say should be accounted for.

Krista Kafer, an education analyst at The Heritage Foundation, isn't surprised by the IRS's pending investigation. "The NEA has been spending millions and millions of dollars on politics, but claiming that they're not spending anything out of their general funds for these kinds of things," she said. Kafer added that NEA money primarily backs liberal candidates and causes. "It is frustrating, particularly to those who are forced to pay union dues in non-right-to-work states, that their money is going to these kinds of activities," she explained.

Focus on the Family, a Christian ministry based in Colorado, notes the controversy is not over the NEA spending its dues money on politics—that practice is legal. At issue is whether the NEA is properly accounting for its political spending and paying the taxes it is by law required to pay on that money.

In a statement posted on the Focus on the Family Web site, Marc Fey, the group's education policy analyst, says a probe of NEA activities is called for.

"We're going to find out what the truth really is," Fey writes. "More important than that is the fact that the American people, moms and dads across the country, are seeing that the NEA has an agenda other than just educating our kids." Fey says the NEA's money would be better spent on issues more directly related to the classroom.

"We provided the IRS with a chapter and verse road map into the union's political expenditures. It appears that the NEA may finally be called to account for its failure to tell the government—and its members—how much it is spending on politics."

MARK R. LEVIN
LANDMARK LEGAL FOUNDATION

More Audits to Come?

The NEA probe may be just the first of many such audits by the IRS. Congress hasn't even approved the agency's 2004 budget request of $10.4 billion and already the IRS is asking for more. The 2005 budget request is more than a billion dollars greater than the 2004 request, and most of the new money would go to fund law enforcement projects, including the hiring of 5,000 additional employees.

When former Commissioner Charles Rossotti left office a year ago, he advised Congress that in order for the IRS to return to pre-1998 enforcement levels, the agency would require annual budget increases of about 2 percent per year for the next five years. Under the most recent budget request, the agency's bankroll would grow by a whopping 12 percent over the 2004 figure.

Assuming Congress authorizes the 2004 budget request, expect unprecedented enforcement in the following five key areas.

■ Increased audits of small businesses. For years, the IRS has been concerned that partnerships and small business corporations (so-called S corporations) may not be reporting all their income. The IRS began a program two years ago to target small businesses for audit to ensure they're reporting everything. With new enforcement funds, the agency expects to increase the number of small business audits by 110 percent in 2004.

■ More attacks on non-filers. The IRS's known inventory of tax return non-filers is 6.8 million. For obvious reasons, it is unable to target all these people for enforcement action. However, by earmarking $3.6 million to the program and increasing its staff, the IRS expects to contact an additional 1.6 million non-filers in 2004. Through this process, the IRS expects to make $74 million in new tax assessments.

■ Increased scrutiny of W-4 Forms. Form W-4, Employees Withholding Allowance Certificate, is the form employees file with their employers to set wage withholding. Many non-filers inflate their allowances in order to stop wage withholding. The IRS intends to increase the use of its Questionable Form W-4 Program to intercept the bogus forms. Under the program, the IRS sends a letter to those whose W-4s (turned into the IRS by one's employer) fall outside acceptable parameters. The letter demands the form be corrected or the IRS will impose penalties and instruct the employer to disregard the W-4 and withhold at the highest level. The agency's goal is to use the Questionable W-4 Program to identify new non-filers and enforce collection against those already in its case inventory.

■ Targeting under-reporters. An under-reporter is one who failed to claim all income. The IRS uses several different methods to unearth under-reporters and currently, there are approximately 5 million cases in inventory. By increasing the staff assigned to those cases, the IRS intends to step up the attention given them and thereby create $98 million in additional tax assessments in 2004. In 2002, the agency increased its contact with these people by 36 percent over 2001 levels. This is the area under which the NEA case falls.

Dan Pilla is a nationally known tax litigation consultant and author of 11 IRS self-help defense books. His latest book, The IRS Problem Solver, *was published by Harper Collins and is available through bookstores and Amazon.com. His Web site is* **http://www.taxhelponline.com**.

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Tax Law Discourages Companies from "Bringing Home" Foreign Income

by Stephen J. Entin

The United States has the second highest corporate tax rate in the 30-member Organization for Economic Cooperation and Development (OECD). The result is that foreign earnings by U.S. multinational corporations face higher add-on U.S. taxes if the income is "repatriated," or brought home.

Firms are reluctant to bring home profits in excess of amounts protected by foreign tax credits. Those credits are getting scarcer, because, over time, foreign countries have reduced their corporate tax rates. This is poor economic and tax policy, putting up barriers to the free flow of capital and discouraging investment in the United States.

Recent Legislation

On October 1, the Senate Finance Committee reported out a bill (S. 1637) to repeal the Extraterritorial Income deduction (ETI) that was ruled illegal by the World Trade Organization (WTO). On October 29, the House Ways and Means Committee approved its own version (H.R. 2896). Both bills use the revenue from repealing the deduction to reduce business taxes. (ETI replaced the old Foreign Sales Corporation (FSC) export subsidy that also ran afoul of the WTO.)

The Senate ETI bill includes a variant of the "Homeland Investment Act," which would temporarily allow U.S. multinational corporations to repatriate foreign profits at a reduced tax rate of 5.25 percent on dividends paid by a foreign subsidiary to its U.S. parent.

The Ways and Means Committee considered a similar provision with a 7 percent tax rate, but dropped it to trim costs.

Corporate Income Subject to Foreign Taxes

These special tax rates may seem low compared to the U.S. corporate tax rate of 35 percent, but most foreign-source corporate income is subject to foreign income taxes. The foreign tax credit reduces the residual U.S. tax to low single digits (about 3.7 percent in 1999 according to IRS data).

Some companies, however, have exhausted their foreign tax credits, or cannot access them due to various restrictions on their use, and leave substantial earnings abroad to avoid the full U.S. tax. Luring that income home, even at a reduced tax rate, would raise revenue.

A study by JP Morgan Securities concluded that about $300 billion of "trapped" foreign-source past profits might be repatriated under the Homeland provision, increasing investment spending in the United States and raising GDP by half a percentage point.

That is more than $50 billion a year in added U.S. output and income, on which the federal tax take would run about $10 to $12 billion a year. That tax feedback may seem like a small number, but it annually dwarfs the projected 10-year revenue loss. Alternatively, it is more than 25 percent of the projected annual federal subsidy of the prescription drug benefits under the Medicare reform measure signed in December by President George W. Bush.

Better than the Alternative

Tax economists may dispute such investment gains, pointing out that "money is fungible" and there are already ways to tap unrepatriated profits without paying U.S. tax.

For example, a firm could deposit the profits in a foreign branch of a multinational bank as proof of creditworthiness, and borrow a similar amount from the bank's U.S. branch. Alternatively, a firm with subsidiaries in both low-tax and high-tax foreign countries could repatriate all proceeds from the high-tax country operation, and then replenish that subsidiary's working capital with a transfer of unrepatriated earnings from the low-tax country subsidiary.

"The United States has the second highest corporate tax rate in the 30-member Organization for Economic Cooperation and Development (OECD)."

In the real world, however, such arrangements have costs. The offsetting bank deposits approach means the firm would have to pay a loan origination fee and interest to borrow its own money back. Also, the foreign deposit could not be used as formal collateral, or it would be deemed a repatriated dividend subject to tax, so the bank would probably charge a higher interest rate for added risk.

The high- and low-tax country gambit requires the company to maintain operations in a high-tax jurisdiction that it might prefer to avoid. With net-of-tax real returns to capital on the order of 3 percent, even a fraction of a percent of added cost can cut the value of a potential investment by enough to kill it.

Government Provisions and Scores

The Senate repatriation provision would lower the cost of obtaining funds to invest in the United States. Therefore, although the net increase in domestic investment might not match dollar for dollar the amounts projected in the JP Morgan study, the increase in investment would not be negligible.

The Joint Tax Committee scored the Homeland Investment Act (similar to the Senate provision) as costing about $4.4 billion over 10 years, on a static basis. Initially, the bill is shown to raise revenue as the repatriated money is subject to tax. That effect—a modest revenue increase—is quite obvious and straightforward, and is probably the true "static" revenue result of the bill.

However, the analysis goes on to assume that, in later years, the bill would cost more revenue than it first brought in, due entirely to the assumption that it would give firms hope for another amnesty in later years, causing them to delay future taxable repatriations.

That assumption of future losses is pure speculation and highly suspect. Significant future repatriations in excess of amounts protected by the foreign tax credit are highly unlikely to occur, especially if there is a residual U.S. tax, because investment opportunities are rising abroad.

China, with a fifth of the planet's population and heavily under-capitalized, is growing at about 7 percent a year. Russia, with a flat tax and huge natural resources, has just achieved "investment grade" according to Standard and Poor's. India is liberalizing and is becoming a major high-tech powerhouse. Much of the rest of Asia and Latin America is also moving toward free-market economics, and will be growing apace.

If this progress continues, these regions could profitably absorb all the future foreign profits of U.S. multinational companies for decades.

Improving U.S. Tax Policy

The repatriation proposal improves tax policy in that it moves, if only briefly, in the direction of a territorial tax. Under a territorial income tax, the United States would tax income earned here, and leave foreign-source income to be taxed by the countries in which it is earned.

That is the system generally used by other countries. It would be easier to enforce, requiring no tracking of foreign activity and no foreign tax credit. It would make American companies more competitive abroad and would boost exports from U.S. suppliers to U.S. foreign subsidiaries.

But that's for a future reform bill. Meanwhile, the repatriation proposal would probably raise U.S. tax revenue by shifting income to the U.S. and boosting domestic investment and GDP.

Stephen J. Entin is president and executive director of the Washington, DC-based Institute for Research on the Economics of Taxation (IRET). A longer version of this essay was first published by IRET as Congressional Advisory 162 *on October 31, 2003 and is available at* **http://www.iret.org**. *Entin's email address is* **sentin@iret.org**.

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